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BNP Paribas Real Estate publishes Q3 2019 German office market results

Record take-up: More than 3 million sqm for the first time in first three quarters of the year

In the first three quarters of 2019 office take-up in Germany's top eight locations of Berlin, Düsseldorf, Essen, Frankfurt, Hamburg, Cologne, Leipzig and Munich totalled at 3.03 million sqm, reflecting a yoy increase of 6% and a new record high. These figures are based on the latest analysis by BNP Paribas Real Estate. Overview of key results:

- New record take-up result of 3.03 million sqm in first three quarters (+6%)
- Vacancy down again by almost 11% in all locations
- Vacancy rate across all cities analysed: 4%
- Upward rent trend picks up speed: Significant increases in both prime (+7%) and average rents (+11%)
- 2019 outlook: Above-average take-up basically in line with previous-year results

"Demand remained high in Q3, pushing take-up to over 3 million sqm for the first time after only the first 9 months of the year. These results beat out last year's record by 6% and exceed the 10-year average by an impressive 22%. Activity this year to date reflects the high stability of the German office markets and shows that they continue to perform well despite growing negativity in terms of general economic outlook. The job market plays a key role here. Despite a slight decline in GDP in Q2, September's unemployment figures are the lowest they have been since German reunification. That combined with the fact that the unemployment rate fell by two percentage points to 4.9%. Even though the typical autumn spurt was somewhat weaker than in the previous year, it still had a noticeable impact despite a weaker economic environment. Taking into account additional impacts such as the demographic trend and the resulting war for talent that many companies face, it makes sense that a number of them are taking steps to retain employees despite the current cyclical economic downturn. The office markets are set to benefit from this trend going forward and will most likely be less affected than in previous cycles, even if general economic



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performance proves to be somewhat weaker", explains Riza Demirci, Managing Director of BNP Paribas Real Estate GmbH and Head of National Office Advisory.

Berlin claimed pole position with an impressive 726,000 sqm in take-up. Not only did this result outperform the previous-year result by just over 26%, it also set a new record. Berlin continues to break one record after the other on the investment market as well as on the city's office markets. It nevertheless remains to be seen whether current activity will be able to exceed the 1-million-sqm mark this year. Munich claimed second as anticipated with 622,000 sqm in take-up, down 10% from last year's all-time high but surpassing the 10-year average by an impressive 16%. Hamburg and Düsseldorf followed neck-and-neck to claim third and fourth place, respectively. Take-up in Hamburg remained relatively constant yoy at 413,000 sqm (-1%) while Düsseldorf set a new record with 406,000 sqm, posting the largest increase among all the cities analysed of just under 42%. Frankfurt fell just shy of the 400,000 sqm mark at 397,000 sqm (370,000 sqm of which was recorded in the more narrowly defined gif zone), down almost 17%. However, there are signs that activity will pick up significantly in Q4, resulting in increased take-up in Germany's banking capital. Take-up in Cologne was up as well at 220,000 sqm (+9.5%). With this result, the city appears to have established its performance at a tangibly higher level than was previously the case. The office market in Essen also posted a record high of 140,000 sqm (+35%), not only repeating but managing to exceed the previous year's substantial result. Take-up in Leipzig was down a mere 2% from last year's all-time high to a current 108,000 sqm.

Drop in vacancy rates continues

Vacancy continues to drop thanks to ongoing strong demand as indicated by high take-up levels. Over the past 12 months vacancy has fallen by almost 11% across all cities analysed to a current 3.81 million sqm, still below the 4-million-sqm mark. Of this vacant space, only just under 1.14 million sqm can be classified as modern. That means that not quite 30% of currently vacant space is able to fulfil typically high tenant demands. The fact that vacancy is decreasing across the board is of particular note with smaller cities posting the steepest declines. Vacancy in Leipzig was down 22% to 192,000 sqm (vacancy rate: 5.1%) and 33% in Essen to 106,000 sqm (vacancy rate: 3.4%). This trend can in part be attributed to the fact



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that property developers are only engaging in speculative developments in smaller cities to a limited extent, which means the amount of space available tends to drop rapidly in line with high take-up activity. Vacancy in Berlin was down almost 15% to 324,000 sqm, reflecting a vacancy rate of 1.6%. In many cases property developments are the only way to address the high take-up activity currently underway in the German capital. Hamburg posted vacancy reduction in the double digits (-11%), with 582,000 sqm of available space putting the vacancy rate at a low 4.2%. Vacancy fell by roughly 8% in Düsseldorf (810,000 sqm; vacancy rate: 8.5%), Cologne (196,000 sqm; 2.5%) and Munich (495,000 sqm; 2.3%). Looking at the municipal area only, the vacancy rate in Munich is currently only posting a low 1.4%, similar to Berlin. Vacancy in Frankfurt was down 7% to 1.1 million sqm, putting it at a current 7.2%. The vacancy rate dropped to a mere 4% across all cities analysed, the lowest ever recorded.

Upward rent trend picks up speed

With supply becoming increasingly scarce, especially when it comes to centrally located high-quality space with modern fit-out, the upward rent trend that has been ongoing for some time now has picked up the pace. Prime rents have increased by just over 7% on average within the scope of one year across all cities analysed. Hamburg posted the steepest spike at almost 15%, crossing the €30-per-sqm threshold for the first time to a current €31 per sqm. Berlin also recorded steep growth in rents of just under 12% to €38 per sqm as did Leipzig at 11% to €15 per sqm. It is only a matter of time before prime rents in Berlin reach €40 per sqm and property developers are expressing growing interest in Leipzig in light of current rent performance. Prime rents in Munich are also approaching the €40-per-sqm mark at a current €39.50 per sqm (+3%). Prime rents in Frankfurt have been posting above this level for some time now with a further increase of 5% to €45 per sqm in the past 12 months. Rents in Cologne set a new record as well with prime rents up almost 9% to a current €25 per sqm, a new all-time high for the city. Essen and Leipzig are seeing similar activity, each posting increases of just under 7% to a current record of €16 per sqm. Düsseldorf experienced the most minor increase with prime rents up 2% to €28 per sqm, putting the €30-per-sqm mark in sight.



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Average rents experienced an even steeper increase, up 11% across all cities analysed. This underscores the fact that rents are currently performing favourably across the board, meaning that this trend is no longer limited to new-build properties in prime locations. The upward trend is particularly strong in Berlin where average rents were up 25% to €26 per sqm, by far the highest level recorded among the cities analysed. Average rents also saw steep growth in Hamburg (+15%), Leipzig (+12%) and Cologne (+9%). Average rents in the other cities posted increases ranging between 5% and 7%.

Prospects: Market momentum set to continue in Q4

"As things stand today there is every indication that the high demand we have been seeing this year to date will continue into Q4, the quarter that tends to bring in the highest take-up results. The fact that large-scale leases are about to be signed in several cities is another good indication of a lively Q4. Despite somewhat lacklustre economic performance and geopolitical tensions, the German office markets are still in excellent shape. As mentioned previously, this can primarily be attributed to the current situation on the job market and the increased efforts by many companies compared to previous cycles to try to retain employees despite somewhat more difficult times. Furthermore a renewed acceleration of overall economic performance in H1 2020 remains the most likely scenario with the current economic situation only reflecting a slight dip in growth. As long as there are no significant changes to this scenario, the office markets are less likely to correlate with a somewhat weaker overall economic trend to the degree that they have in the past. In light of this, all signs are pointing to annual take-up roughly in line with previous year results. However, it remains to be seen as to whether take-up will exceed the 4-million- s qm mark for the third time in a row. In light of the ongoing supply and demand imbalance, rents are set to continue their upward trend as well," predicts Piotr Bienkowski, CEO of BNP Paribas Real Estate Germany.

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BNP Paribas Real Estate, one of the leading international real estate providers, offers its clients a comprehensive range of services that span the entire real estate lifecycle: Property Development, Transaction, Consulting, Valuation, Property Management and Investment Management. With 5,400 employees, BNP Paribas Real Estate supports owners, leaseholders, investors and communities thanks to its local expertise across 32 countries (through its facilities and its Alliance network) in Europe, the Middle-East and Asia. BNP Paribas Real Estate, as part of the BNP Paribas Group, generated € 968 m of revenues in 2018. BNP Paribas Real Estate is part of the BNP Paribas Group.

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