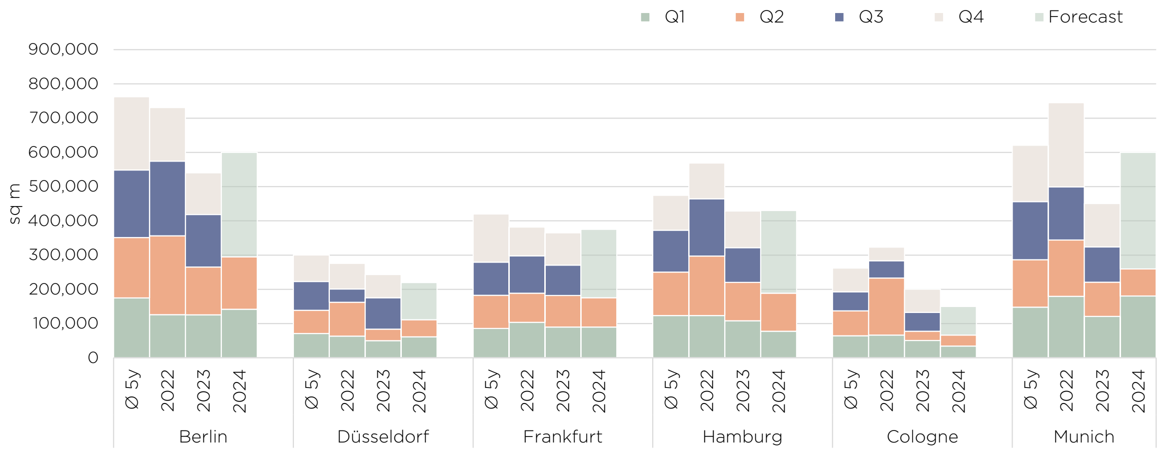
MARKET IN MINUTES
Savills Research

Top 6 Office Markets

savills

Graph 1: Take-up in the top 6 markets



Source Savills / Note: Ø5y = average last 5 years

FOCUS ON SELECTED FIGURES

1.1m sq m

Take-up in the first half of 2024 amounted to 1.1 million sq m, which was 4.5% higher than in the same period of the previous year. However, the figure is below average in a long-term comparison.

5.9%

The average vacancy rate in the top 6 cities is 5.9% and is expected to rise further. This is likely to put pressure on many landlords, especially as high costs make modernization difficult.

Contract extension instead of relocation

Take-up in the top 6 office letting markets amounted to 1.1 million sq m in the first half of 2024. This corresponds to an increase of 4.5% compared to the same period of the previous year. Compared to the average half-year results of the last ten years, take-up in the first half of 2024 was 24% lower. Nevertheless, the lettings market is still active in terms of lease extensions. Many companies have extended their existing contracts in the short to medium term, mainly because they are shying away from costs due to the economic situation, adapting to hybrid working models or because suitable space is hardly available.

Office solutions for hybrid working models are still being looked for

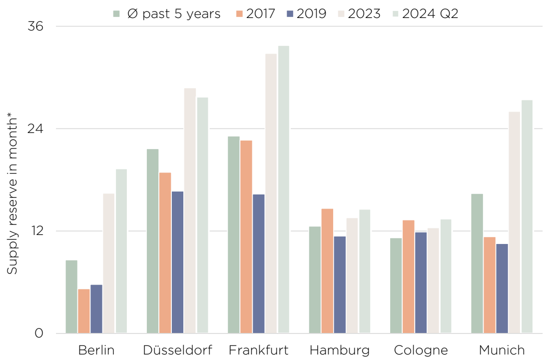
While many occupiers were still in the discovery phase last year when it came to hybrid working models, these are now well established in the working culture of large companies in particular and also in large parts of the public sector. Many are now facing the next step and want to adapt their office space to hybrid working. However, they are often unsure of how a good office space should look, what motivates employees to return to the office and how the space will be occupied in the long term. Most have realized that they need less office space, and large companies in particular are therefore

Table 1: Office market indicators at a glance

	TAKE-UP (sq m)		VACANCY RATE (%)		PRIME RENT (EUR/ SQ M/MONTH)		MEDIAN RENT (EUR/SQ MONTH)		AVERAGE RENT (EUR/ SQ M/MONTH)	
	Q1 - Q2 2024	Y-O-Y CHANGE	2024 Q2	Q-O-Q CHANGE	2024 Q2	Q-O-Q CHANGE	2024 Q2	Q-O-Q CHANGE	2024 Q2	Q-O-Q CHANGE
BERLIN	294,800	11.30%	5.2	+70bps	45.00	-4.30%	26.00	+/-0%	27.70	-1.40%
DÜSSELDORF	111,300	32.70%	7.8	-10bps	42.50	1.20%	16.50	+/-0%	20.65	-1.00%
FRANKFURT	175,400	-3.50%	10.0	+30bps	45.00	+/-0%	20.00	+/-0%	25.00	8.50%
HAMBURG	188,500	-14.50%	4.2	+20bps	35.50	+/-0%	20.00	-3.60%	21.50	+/-0%
COLOGNE	66,500	-14.10%	3.8	+20bps	29.85	2.90%	17.00	3.00%	18.35	0.50%
MUNICH	259,400	17.50%	5.8	+30bps	52.00	3.50%	21.00	-0.70%	23.45	-1.30%
TOP 6	1,095,900	4.50%	5.9	+30bps	41.64	0.40%	20.00	-2.00%	22.78	0.80%

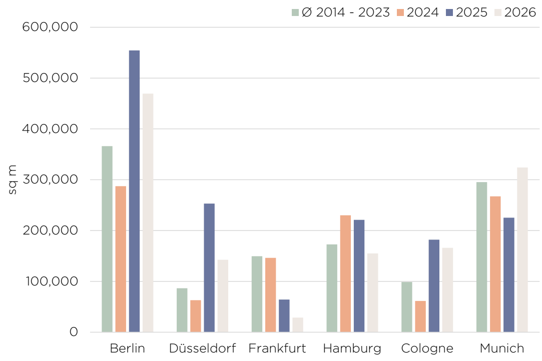
Source Savills

Graph 2: Supply reserve



Source Savills / relation between supply (= current vacancy rate) and demand (= average space take-up over the last 3 years)

Graph 3: Pipeline



Source Savills

concentrating on reducing their surplus space, especially if they have several locations. Due to the lack of clarity and the focus on giving up unneeded space, new leases are being postponed.

Availability of space in central locations in the small space segment

The few large companies that are willing to rent new space in the medium and larger space segment are mostly looking for new-build space in central locations. However, these spaces are in short supply. This is also reflected in the high pre-letting rate, which averages 68% for this year in the top 6 cities. At the same time, we are seeing greater availability of smaller existing space of less than 1,000 sq m in central locations, as larger companies are giving up space or renting less. With less demand from large tenants and rising vacancies, landlords are more open than in the past to leasing such space on a smaller scale. After all, the average vacancy rate in the top 6 cities rose again by 30 basis points to 5.9% compared to the previous quarter.

Slight increase in rents due to demand and costs

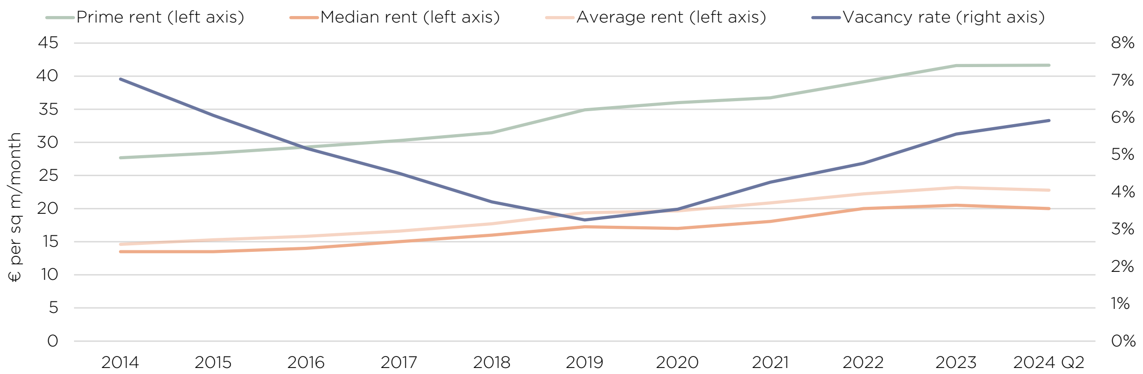
The focus of tenants on central, high-quality space continues to lead to rising prime rents despite the increase in vacancies. On average, prime rents in the top 6 cities rose by 0.4% compared to the previous quarter. High construction costs are one factor driving this trend. Landlords often try to compensate for these by raising rents. Average rents rose by 0.8% compared to the previous quarter. Due to the competitive market with rising vacancy rates, many landlords continue to offer attractive incentives.

Outlook: Lease extensions remain attractive - opportunities for financially strong owners

For the remainder of the year, we expect take-up to be around the previous year's level. For companies, lease extensions are likely to continue to be a tool to save costs and to give them time to determine their space needs for their mostly hybrid work model. As occupiers are demanding less office space due to hybrid working, we expect a further increase in vacancies. In addition, construction and maintenance costs are likely to remain at a high level. Both of these factors are expected to put pressure on many landlords as they would have to invest to avoid or reduce vacancies. With rising costs, however, fewer and fewer landlords will be able to do so. For those with the ability to upgrade space, the time to invest may be just right. Especially as the development pipeline in the top 6 cities will be significantly smaller from 2026 onwards.

Download the charts and raw data here

Graph 4: Development of rents and vacancy



Source Savills

SAVILLS TEAM

Please contact us for further information

JAN-NIKLAS ROTBERG
Director
Head of Office Agency Germany
+49 30 726 165 400
jrotberg@savills.de

ANTONIA WECKE
Senior Consultant Research
+49 30 726 165 133
awecke@savills.de