

Berlin Office, Q2 2017

# Berlin's office market undersupplied with modern stock

▲ Take-up  
203,600 sq m

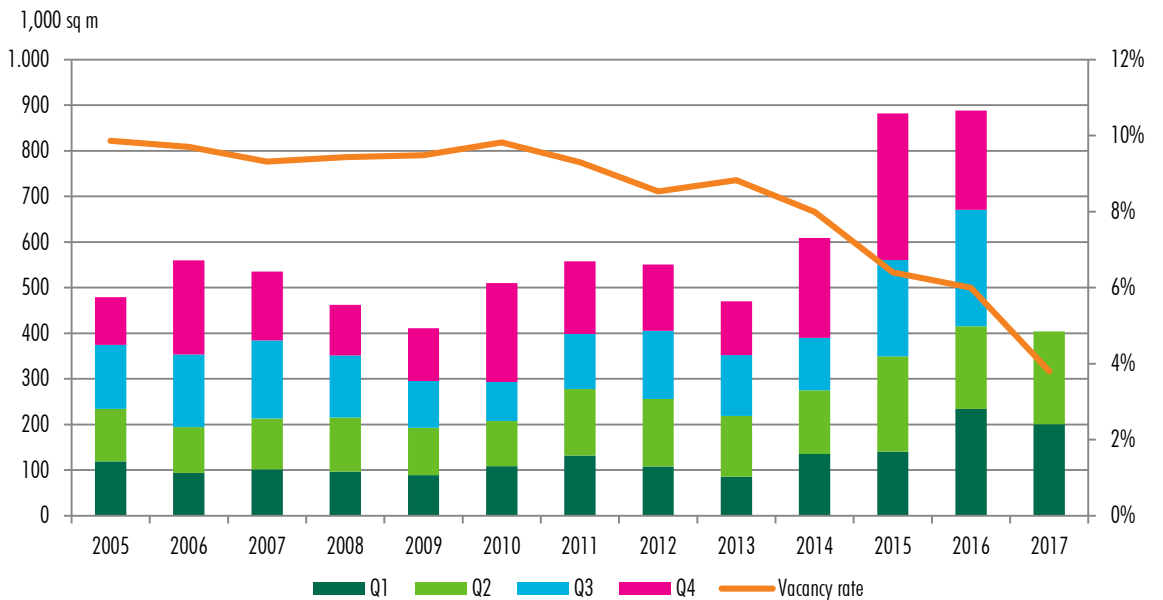
▲ Prime rent  
€28.00 /sq m

▼ Vacancy rate  
3.8%

▼ Completions  
62,600 sq m

Arrows indicate change from previous quarter.

Figure 1: Office space take-up and vacancy rate



Source: CBRE Research, Q2 2017.

- Letting take-up stable compared to previous year
- Vacancy rate drops to 3.8%
- Prime rent rises to €28.00 /sq m/month
- Weighted average rent at €17.01 /sq m/month
- Investment volume of €2.86bn (+ 36% year-on-year)

Berlin's economic growth has continued unabated during the beginning of 2017. According to Investitionsbank Berlin (IBB) Berlin's economy grew by 2.2% (Germany: +1.5%) during the first quarter and is expected to continue its growth by 1.9% during the second quarter (Germany: +1.3%).

This trend is reflected by Berlin's ever-decreasing unemployment rate which was at 8.8% at the end of June. This equals an decrease of 70 bps year-on-year.

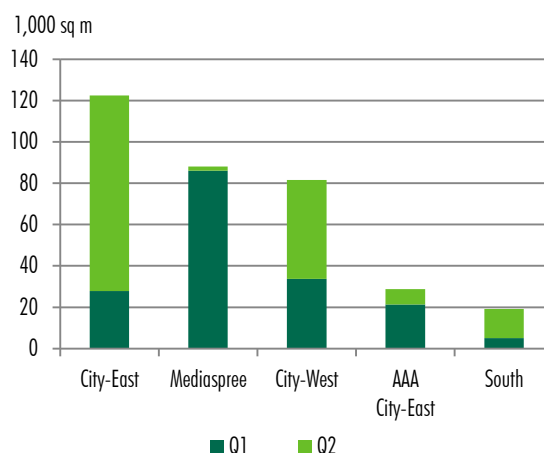
OFFICE SPACE TAKE-UP

In closing of the first half-year of 2017 Berlin's office take-up was as high as 403,700 sq m. Thereby a similar high level as the record year 2016 was reached. Specifically compared to last year, a slight decrease of almost 3% is recorded, though concurrently total take-up amounts to 54% above the ten-year average. Therefore, Berlin was able to secure the second place after Munich (416,900 sq m) in direct comparison of the German top locations.

With 204,000 sq m, half of the total amount of Berlin's office take-up was allocated on both of the largest inner-city submarkets City-East and City-West. City-East reached 30% of the total take-up, City-West still 20%. The area of Mediaspree is presenting a comparable share with 22% of the total take-up, whereby most important transactions were performed during the first quarter. Berlin's premium locations reached a total share of 12%, from which AAA City-East stands out with a share of 7% or 28,700 sq m.

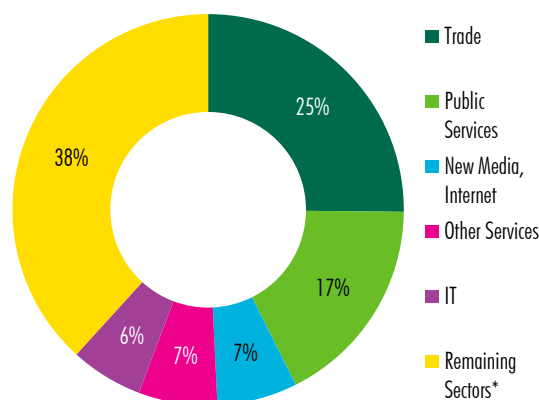
Once again Berlin does its reputation justice being Germany's start-up-capital and the center of attraction in the international creative scene. During the first half of the year the TMT sector (technology, media and telecommunications) reached a take-up share of 40% and was able to increase by 22% compared to previous year.

Figure 2: Office space take-up by submarkets (Top 5)



Source: CBRE Research, Q2 2017.

Figure 3: Office space take-up by sectors\* (Top 5)



Source: CBRE Research, Q2 2017.

\*in total 20 sectors

Figure 4: Office market key data	Q2 2016	Q2 2017	Y-o-Y
Total stock (all grades), million sq m	17.90	18.09	+ 1.1 %
Take-up, cum. 1,000 sq m	415.5	403.7	- 2.8 %
Vacancy, million sq m	1.07	0.69	- 35.5 %
Vacancy rate, %	6,0	3.8	- 2.2 %-pts.
Prime rent, €/sq m/month	26.00	28.00	+ 7.7 %
Prime yield, %	3.75	3.25	- 0.5 %-pts.
Capital value index (Q1 1986 = 100)	308	383	+ 24 %

Source: CBRE Research, Q2 2017.

With 17% the public sector and 7% other services are heavily involved in the take-up. Especially co-working-spaces and business centers are included in the last-mentioned sector. Against the background of the tense supply situation on the Berlin office market, these services present an interesting temporary solution for early phase start-ups.

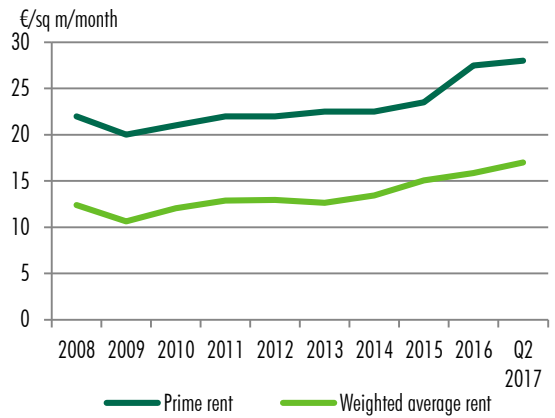
**OFFICE MARKET RENTS**

The shortage of space at simultaneously further on high demand is affecting the rents, so that Berlin's prime rent has risen by €0.50 to €28.00 /sq m/month in relation to the previous quarter. This states an 8% increase year-on-year. This increase has equally taken place in the submarkets AAA City-East and AAA Potsdamer Platz/Leipziger Platz. AAA City-West roughly gained 17 % amounting to €27.00 /sq m/month and has almost followed up to the other top locations. The strongest rental year-on-year was reached by City-West with a growth of 26% amounting to €24.00 /sq m/month. The rental level on the Berlin market noticeably tightens in all price ranges. The weighted average rent has risen by 11% to €17,01 /sq m/month within a year. The AAA City-West holds a special position. Here the weighted average rent experienced an increase of roughly 29% amounting to €23.54 /sq m/month. This extreme increase, which even exceeds the level of AAA Potsdamer Platz/ Leipziger Platz, is explained through the very expensive rents beyond the €30.00 /sq m/month of the recently completed office tower Upper West. Mediaspree shows a similar high growth with roughly 26% to €19.14 /sq m/month and has now slightly surpassed the level of City-East (€19.05 /sq m).

**OFFICE SPACE PIPELINE**

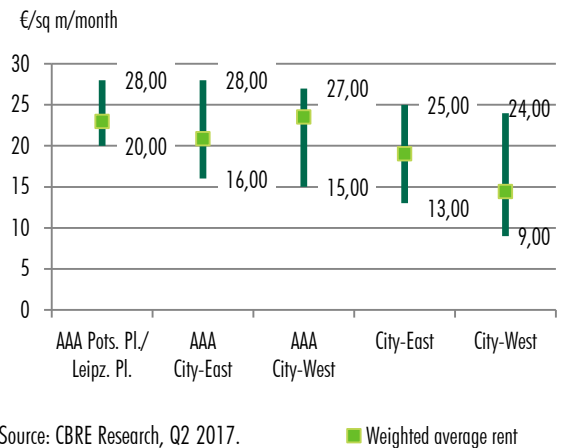
The high space take-up stands against a comparatively low number of office space completions. In the first half of the year a total of 140,000 sq m of new-build space or rather refurbished spaces was completed und therefore 12% less than in the previous year. On the other hand, thereof only 26% have reached the market as speculative, readily available space.

Figure 5: Prime rent and weighted average rent



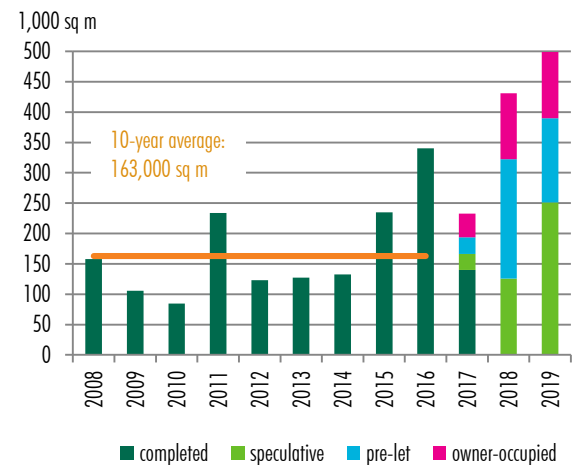
Source: CBRE Research, Q2 2017.

Figure 6: Rental bands by submarkets (Top 5)



Source: CBRE Research, Q2 2017.

Figure 7: Office space future supply



Source: CBRE Research, Q2 2017.

Based on current information, out of 524,100 sq m office space which are expected to be completed by the end of 2018, 71% are already pre-let. This amount only drops to 50% on spaces with completion date within the year of 2019. Therefore, a light easing at the earliest is theoretically only possible in 2019.

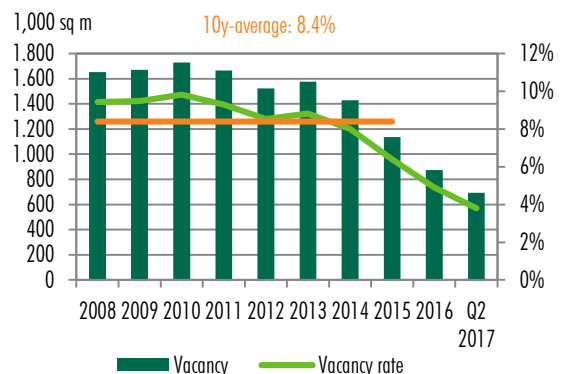
VACANCY

The very high office market take-up combined with low completion numbers lets Berlin's vacancy volume noticeably melt away. Within one year vacancy dropped by 35% to 692,400 sq m. Thereby the vacancy rate currently stands at 3.8%. The significant excess demand of modern office space results into a long-term planning concerning location decisions being increasingly necessary and workplace strategies, which enable an optimization of space efficiency.

INVESTMENT MARKET

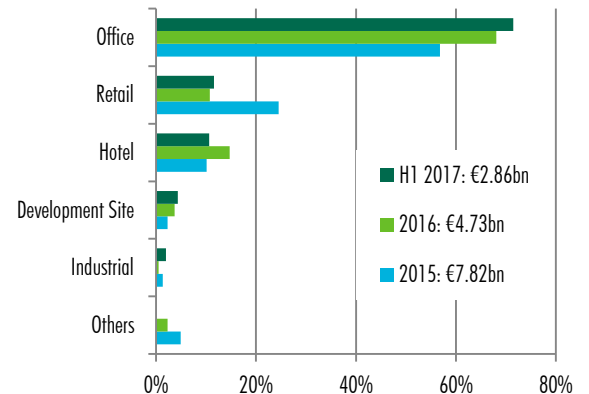
The commercial investment market completes the first half-year with the best half-year results since records began. In total a transaction volume of €2.86bn was recorded – an increase of 36% year-on-year. This record result secures Berlin the top position among the German top locations. The traditionally most important asset class remained office property with a share of 72% of the total volume, followed by retail property (12%) and hotels 11%. The demand for real estate is tremendous. Investors compete for the possibility of purchasing the few available properties. The prime yield for top quality office, but also for retail properties in top locations remains stable at the low level of 3.25% (-50 bsp y-o-y). Due to its economic stability Berlin and Germany in total serve as a safe haven for investors. More than half (55%) of the buyers came from abroad and invested in the federal capital. The highest volume transaction therefore also was negotiated by foreign investors. At Adlershof a project development by Allianz was sold to a South Korean investor for €318m. The largest transaction by a domestic investor was the recently refurbished Eight Floors, bought by Allianz Real Estate for €175m.

Figure 8: Office space vacancy



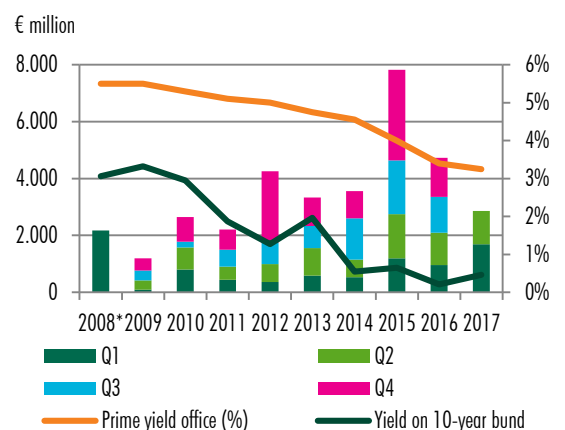
Source: CBRE Research, Q2 2017.

Figure 9: Investment volume by property type



Source: CBRE Research, Q2 2017.

Figure 10: Investment volume, prime yield office, benchmark yield



Source: CBRE Research, Q2 2017.

\* prior to 2009, year-total

OUTLOOK

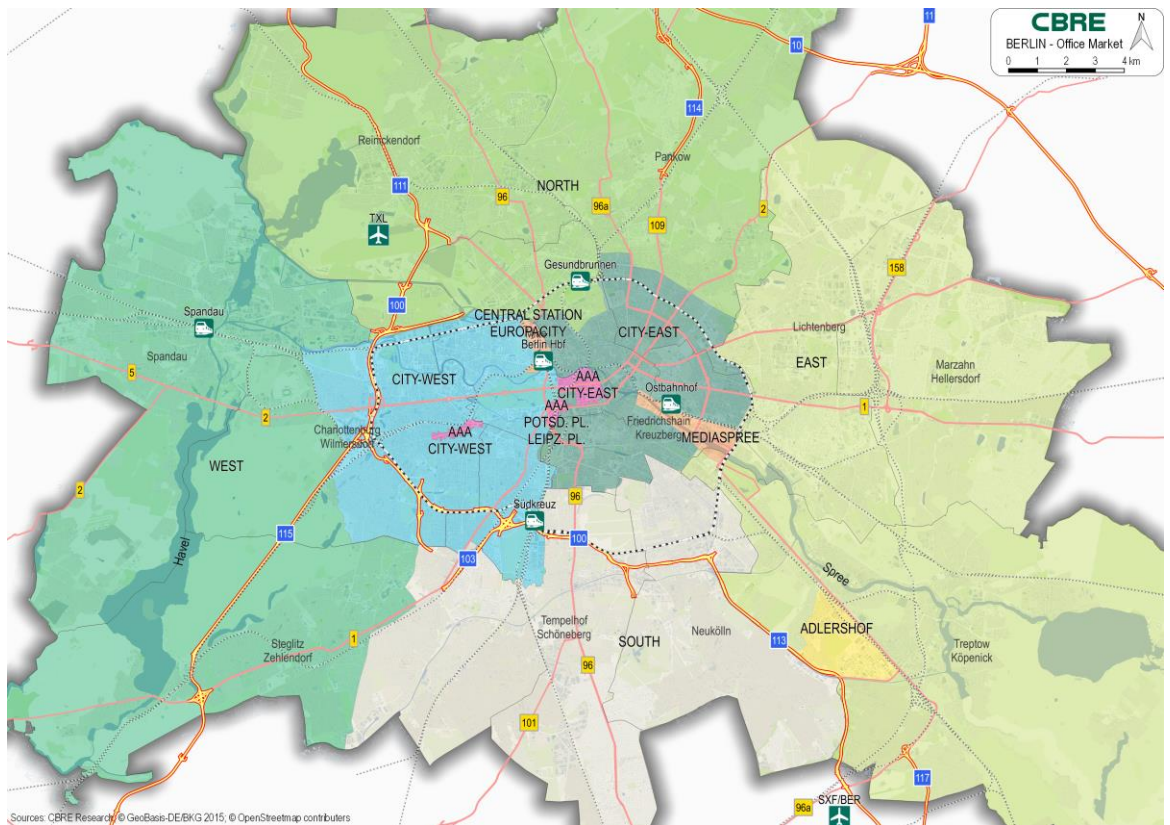
The rapid development of Berlin’s office market will continue in the further course of the year. The appealing international flair paired with an outstanding economic development drives the demand for modern office spaces. Until the end of year, a continuing high rental activity is expected, so that a year-end-take-up at the level of both of the last record years is possible. The construction activity further on tightens, however, with the high demand still much too low, which is indicated by the high pre-occupancy rate.

Due to the very sparse availability of appropriate office spaces, the prime rent will rise further, whereby an increase to €29.00/sq m/month does not appear to be unrealistic. This trend is expected to continue throughout 2018. The 30 Euro-threshold could be passed by early 2018. There are many large transactions expected on the Berlin investment market, which are supposed to be closed during the second half of the year and can also lead to a another record year on the investment market.

Figure 11: Submarket key data

Submarket	Cumulated take-up (sq m)	Future supply Q3 2017 - 2019 (sq m)	Vacancy volume (sq m)	Rental band (€/sq m/month)	Weighted average rent (€/sq m/month)
AAA City-East	28,700	36,000	10,200	16.00 – 28.00	20.87
AAA City-West	13,500	10,800	12,700	15.00 – 27.00	23.54
AAA Potsdamer Pl. / Leipz. Pl.	6,000	0	17,800	20.00 – 28.00	22.97
City-East	122,400	343,100	125,000	13.00 – 25.00	19.05
City-West	81,600	208,800	212,500	9.00 – 24.00	14.42
Main Station/ Europacity	3,400	92,800	3,100	20.50 – 23.50	21.31
Mediaspree	88,100	125,000	12,800	10.00 – 20.50	19,14
Adlershof	8,200	95,600	28,200	9.00 – 13.50	13.82
North	18,700	34,800	54,000	7.00 – 11.50	9.47
East	10,200	34,900	114,900	7.50 – 12.00	10.64
South	19,200	39,600	43.300	7.50 – 14.50	11.43
West	3,700	1,500	57,900	8.00 – 12.00	9.81
<b>TOTAL</b>	<b>403,700</b>	<b>1,022,900</b>	<b>692,400</b>	<b>7.00 – 28.00</b>	<b>17.01</b>

Source: CBRE Research, Q2 2017.



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