

Hamburg Office, Q2 2017

Upswing continues at the Hamburg office market

Take-up
134,500 sq m

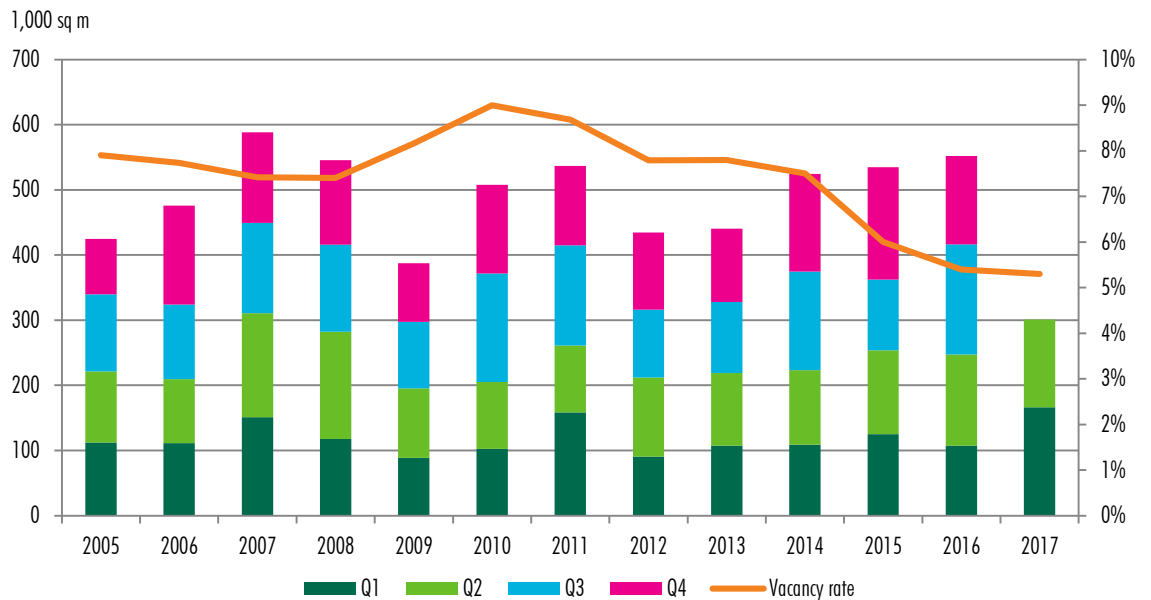
Prime rent
€26.00 /sq m

Vacancy rate
5.3 %

Completions
61,600 sq m

Arrows indicate change from previous quarter

Figure 1: Office space take-up and vacancy rate



Source: CBRE Research, Q2 2017.

- Take-up of 301,000 sq m is 22% higher year-on-year
- Vacancy rate stabilises at low level of 5.3%
- €1.33bn transaction volume in first six months of the year
- Further fall in the net initial yield in the CBD to 3.25%

Hamburg's economy developed robustly in the first half of 2017. Unemployment stood at 6.7% in the month of June, a fall of 0.2 pp compared to the previous month. According to the Economic Barometer published by the city's Chamber of Commerce, investment and manpower planning in Hamburg is pointing to further expansion. This assured the Hanseatic city of brisk market activity, again confirming the sustained upward trend of recent years.

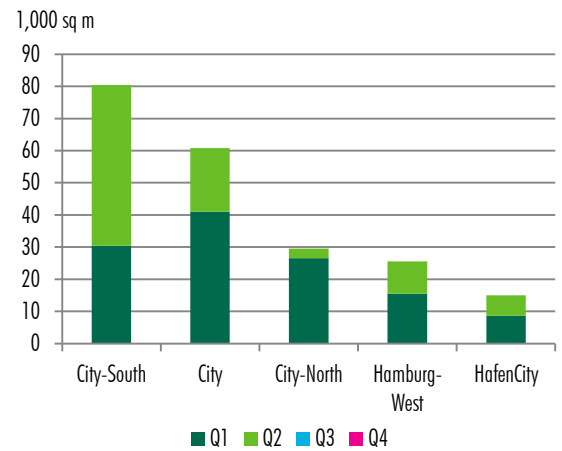
OFFICE SPACE TAKE-UP

A total of 301,000 sq m of office space was let in the first half of 2017, which surpassed not just the previous year's result by 22%, but was also the highest result recorded since the boom year 2007. Take-up reached 134,500 sq m in the second quarter, 4% lower than last year's above-average second quarter result. This rise in take-up in the first six months was driven by two large-volume deals. In the first quarter, the University of Hamburg concluded a temporary contract for 19,700 sq m in City-North and in the second, construction began on the new 34,500 sq m Olympus headquarters in City-South. Together, these accounted for 18% of the total take-up volume in Hamburg.

With a total of 80,400 sq m, more than a quarter of take-up was registered in City-South, followed by City (60,800 sq m) and City-North (29,500 sq m).

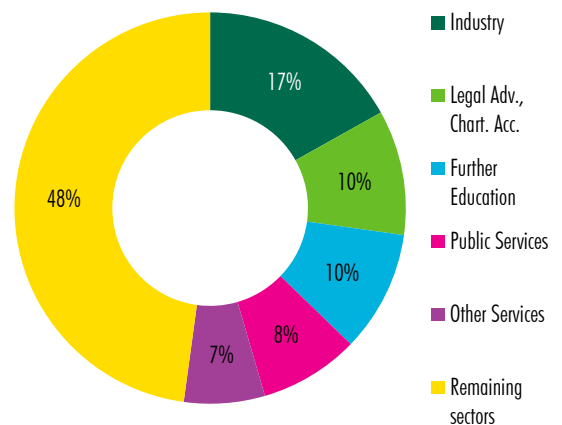
The largest deals concluded in the second quarter in the downtown area included the coworking concept Spaces, which secured around 3,400 sq m in the Work-Life-Center (currently under construction), and the law firm ZENK which has taken over 1,950 sq m in the Möhringhaus on Neuer Wall. The media and advertising agency elbkind signed a contract for over 1,750 sq m on Palmaille in the submarket Westlicher Hafendrand, at the waterfront of the river Elbe.

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	13.61	13.71	+ 0.1%
Take-up, cumulated, 1,000 sq m	247	301	+ 21.9%
Vacancy, million sq m	0.80	0.73	- 0.1 %
Vacancy rate, %	5.9	5.3	- 0.60%-pts.
Prime rent, €/sq m/month	25.50	26.00	+ 2.0%
Prime yield, %	3.75	3.25	- 0.50%-pts.
Capital value index (Q1 1986 = 100)	233	275	+ 18.0%

Source: CBRE Research, Q2 2017.

OFFICE MARKET RENTS

By the end of the second quarter, the prime market rent had reached €26.00/sq m/month, 2% above the previous year's figure; however, this figure has already been exceeded in individual deals in development projects and therefore can be expected to rise by the end of the year. There has been a 2% fall in the weighted average rent to €14.70/sq m/month across the market over the past 12 months, which was the result of the high-volume letting by the University of Hamburg in City-North.

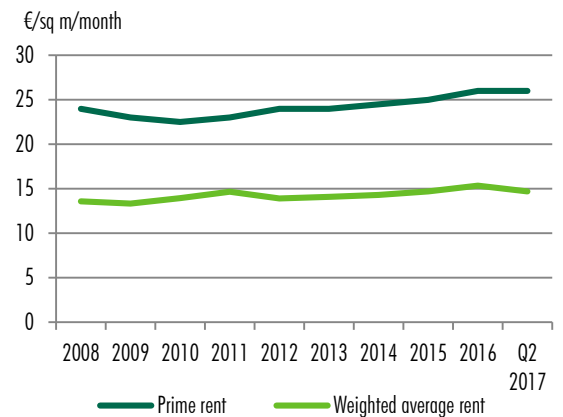
In CBD locations (City, Harbour, Hafencity), the marked scarcity of supply caused a moderate increase in the average rent. An average of €19.23/sq m/month was paid in the City submarket, making it once again the most expensive submarket. Rents are likely to rise in the City locations over the medium-term, particularly in the high-end segment. Increasingly, market conditions are favouring landlords and therefore the willingness of landlords to grant incentives, for example in the form of rent-free periods, has diminished in recent months.

OFFICE SPACE PIPELINE

New construction activity increased across the market in the first half of 2017, indicating that this is a late phase in the current market cycle. It also suggests that the partial excess demand could ease slightly and therefore gradually reduce over the next few years.

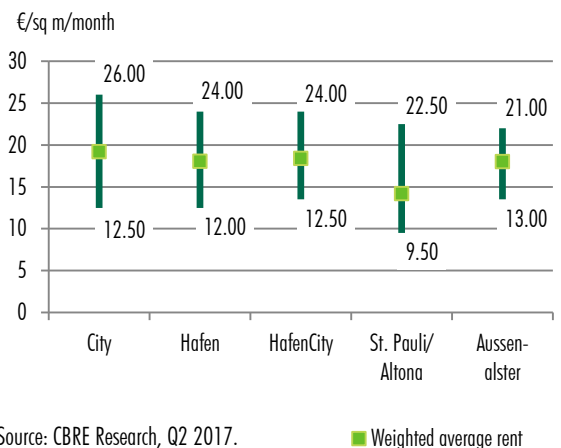
The pipeline is well-filled until the end of the year, with 83,000 sq m of new office space. A significant higher volume is expected in 2018 and 2019, with over 50% of the space already pre-let or built for owner-occupation. Given the robust activity in the rental market, there are no signs of an imminent oversupply at present.

Figure 5: Prime rent and weighted average rent



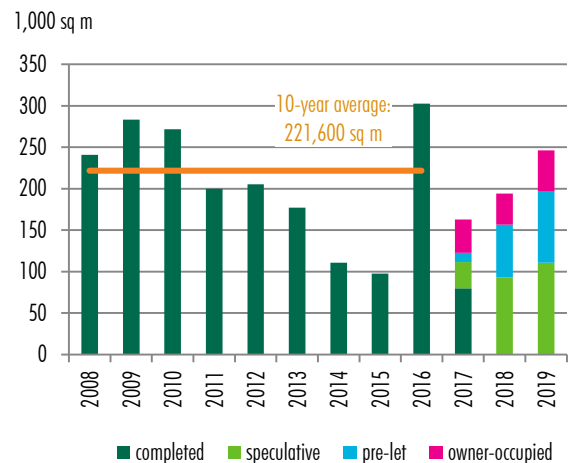
Source: CBRE Research, Q2 2017.

Figure 6: Rental bands by submarkets (Top 5)



Source: CBRE Research, Q2 2017.

Figure 7: Office space future supply



Source: CBRE Research, Q2 2017.

VACANCY

Even at the start of the year, there was a slight slowdown in the rapid decline in vacancies seen in recent years. By the end of the second quarter, vacancy reached 727,200 sq m, which is 9% lower compared to the same quarter last year; the corresponding figure for the period between H1 2015 and H1 2016 was -18%. The vacancy rate in the market as a whole was 5.3%, a 0.6 pp reduction compared to the same quarter last year.

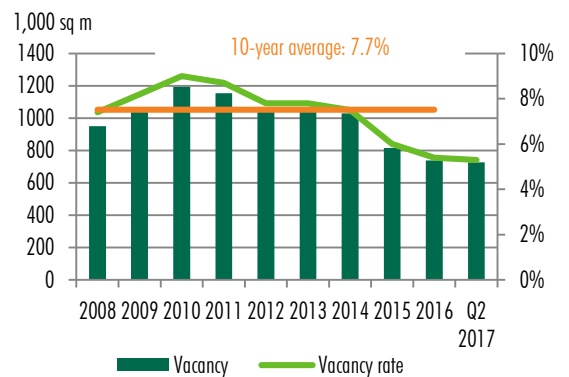
INVESTMENT MARKET

The investment market in Hamburg recorded an investment volume of around €1.33bn in the first half of 2017, 34% lower than the figure for the corresponding period last year. Although there is strong investor demand, there are few suitable products available. Whilst the market picked up in the second quarter of the year, the volume of investment clearly decelerated compared to the previous two years due to the lack of product.

In the current market climate, the net initial yield fell again by a further 5 bps to 3.25% in the City compared to the previous quarter. This corresponds to yield compression of 50 bps over the past 12 months. The net initial yield in city fringe submarkets such as City-South, City-North, City-East / St. Georg and St. Pauli / Altona was 4.1%, 80 bps below the previous quarter.

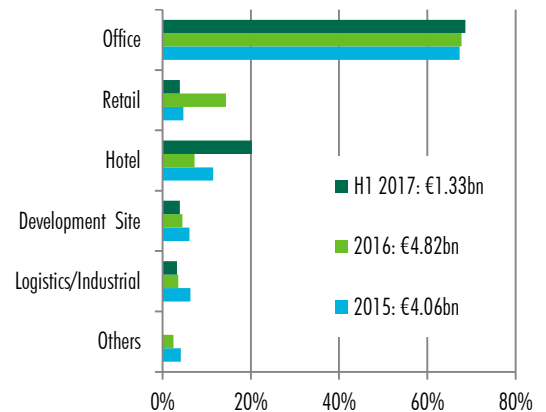
Given the excellent performance in the rental market, office properties remain the focus of investment activity (69% of the volume). This is also increasingly true for office locations outside the immediate city centre. Even Core investors, who are traditionally more sensitive to locational differences, are increasingly interested in properties in city fringe submarkets, especially in City-South. This is due not only to the scarcity of product, which is particularly pronounced in the CBD, but also to the growth of the office market and the significant yield premium of 85 bps compared to other downtown areas.

Figure 8: Office space vacancy



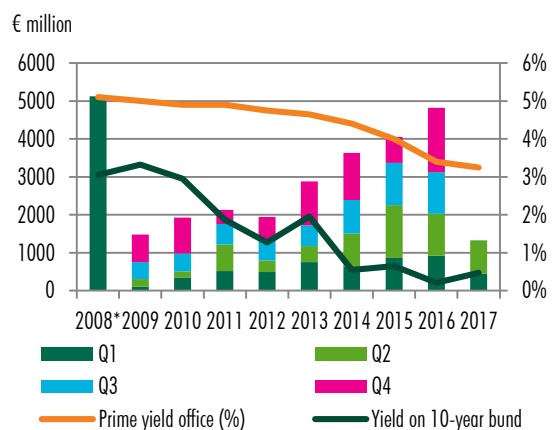
Source: CBRE Research, Q2 2017.

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

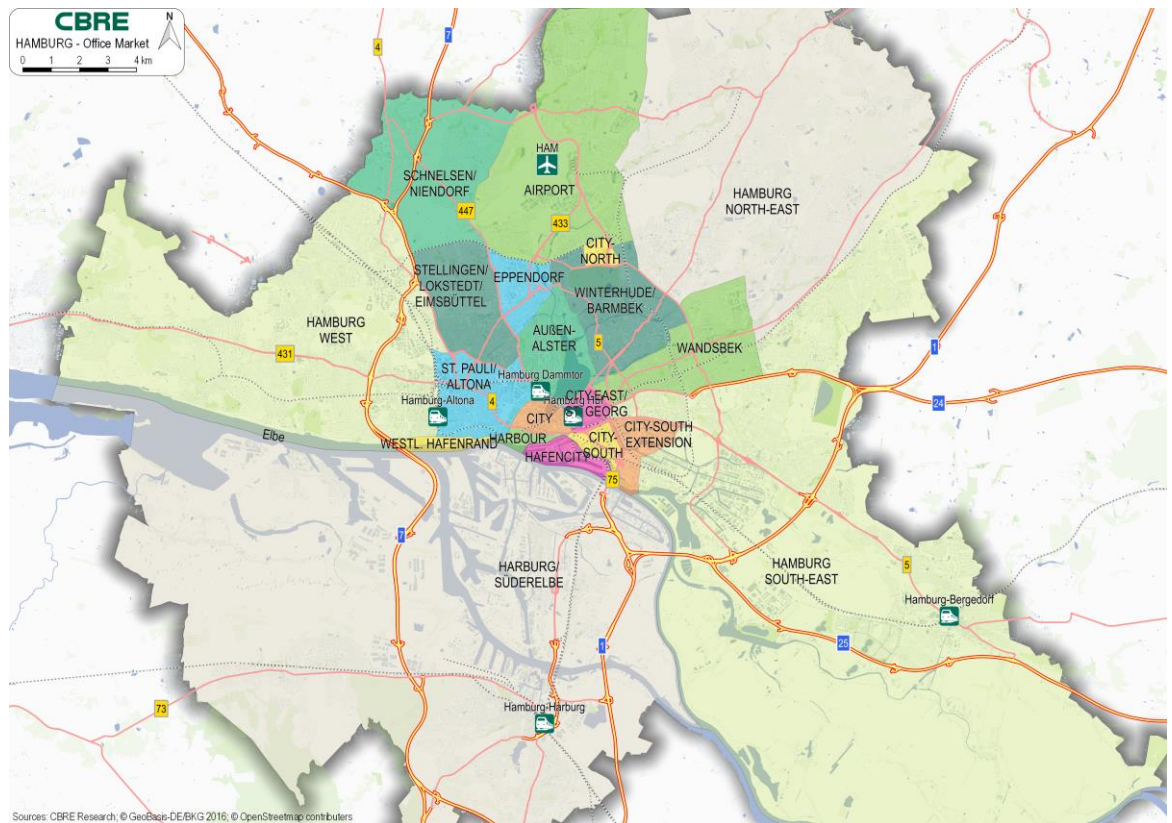
Hamburg's economy will continue to grow strongly in the second half of the year. There are also several larger enquiries in the market, not all of which may be satisfied due to the limited availability. Overall, the market conditions are characterised by excess demand in the high-end segment. This is expected to lead to a further intensification of the supply shortage in the short term, followed by further moderate rental price growth. In view of the strong first six months, the annual take-up forecast of more than 550,000 sq m is quite realistic.

The high level of liquidity on the capital markets will ensure that interest in the very solid Hamburg market remains at a very high level. International investors in particular are looking for higher volume products to expand their market exposure in the safe haven of Germany. The Hamburg market remains a popular destination; however, given the pronounced lack of product, it is unlikely that the previous year's result of €4.8bn can be achieved. Further yield compression can be expected in the current market climate by the end of the year.

Figure 11: Submarket key data

Submarket	Cumulated take-up (sq m)	Future supply Q3 2017-2019 (sq m)	Vacancy rate (%)	Rental band (€/sq m/month)	Weighted average rent (€/sq m/month)
Außenalster	6,100	600	1.9	13.50 – 22.00	18.04
City	60,800	201,600	4.1	12.50 – 26.00	19.23
City-North	29,500	15,300	7.3	10.00 – 15.00	9.75
City-East/St. Georg	9,600	40,400	4.2	11.00 – 21.00	17.71
City-South	80,400	7,300	8.7	8.00 – 15.50	12.70
City-South-Extension	3,100	13,000	7.4	6.50 – 12.00	9.21
Eppendorf	7,100	200	10.1	10.00 – 16.00	12.52
Airport	5,100	29,500	6.6	8.50 – 13.50	12.47
Harbour	10,000	35,400	4.0	12.50 – 24.00	18.10
HafenCity	15,000	42,400	5.1	13.50 – 24.00	18.41
Hamburg-North/East	6,400	0	3.2	9.00 – 12.50	10.58
Hamburg-South/East	0	1,300	0.9	6.00 – 11.00	n/a
Hamburg-West	25,600	70,000	9.9	8.00 – 15.50	12.07
Harburg/Süderelbe	8,800	11,500	4.0	7.50 – 12.50	10.30
Schnelsen/Niendorf	5,900	4,000	2.8	7.00 – 12.50	n/a
Stellingen/Lokstedt/Eimsbüttel	1,600	16,700	1.0	6.50 – 13.50	n/a
St. Pauli/Altona	3,400	11,500	3.3	9.50 – 22.50	14.24
Wandsbek	8,600	0	8.7	6.50 – 14.00	8.58
Westl. Hafenrand	6,500	7,500	4.7	14.00 – 22.00	17.87
Winterhude/Barmbek	7,500	15,100	3.6	8.00 – 14.50	11.71
TOTAL	301,000	523,300	5.3	6.00 – 26.00	14.70

Source: CBRE Research, Q2 2017.


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