

# Markets and Facts

Developments and Trends in the German Real Estate Market

2021



## The Markets for

- Office Space
- Retail Space
- Real Estate Investments
- Logistics Space



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**Approval in principle  
represents the politest form  
of rejection.**

*Robert Lembke*

(referring to the 2020/2021 lockdowns)



Dear Readers,

We begin to have a feeling that the pandemic might at last be controllable. However, it is also recognisable that the way back to what is “normal” will take much more time than we had originally expected. In addition, so far there is no answer to the question of what will be considered to be “normal” in the future. Almost certainly, it will not always be what we were used to in the past!

All the DIP partners wish you such level of composure which is required to appropriately cope with the uncertainty which is lying ahead of us.

It is somehow typical that we must adapt to new situations and circumstances at ever shorter intervals. This is true for all industrial sectors, for all professions, but also for the DIP partners and, not least, for the EXPO REAL trade fair management.

COVID-19 forced us to throw to the four winds or, at least, considerably restrict, our habits and processes. We must now concentrate on efficiency and costs and consider what really matters and is useful. We believe that we take the right path by looking for a personal added value which we intend to offer both our clients and ourselves.

Putting the people – consisting of our families, the clients, customers and the employees with all their different needs – at the heart of what we do will become much more important in the future than we had been aware of in the past, and this will certainly contribute to the success of our business.

Paul Nolte, a Berlin-based historian, describes this period as being characterised by “rough democracy”. This is an appropriate description of the political atmosphere we are living these days, which does not only exist in Germany and in Europe, but also and particularly in the United States. The combination of contempt, speechlessness, hostility and an intention to destroy lead to a way of behaviour which puts the fear of God into some of us. In some situations, we have already seen dams bursting – let us hope that the remaining dams are solid enough!

Most people assume that the high demand for properties is related to easy money policy which has the consequence of inflating property prices. However, I also believe that another reason for this development consists in democratic instability on the horizon all over the world. Particularly Germany as a thinktank must not, in any case, lose sight of the fact that it is absolutely necessary to remain a great exporting country. This is the only way we will be able to protect our wealth! This applies also - together with our neighbours in the Netherlands and in Austria - to the status as a stable property region at the heart of Europe which sees high levels of demand on international level!

**The extended group of DIP partners provides you with perfect conditions for a good, competent and reliable co-operation full of great ideas in 2021 and beyond!**

Sincerely yours,

Henrik Hertz

Spokesperson of the DIP Partners

# The Market for office space

|  | Berlin  | Bremen  | Dresden | Düsseldorf | Essen   | Frankfurt | Hamburg |
|--|---------|---------|---------|------------|---------|-----------|---------|
| <b>Office space market</b>   |         |         |         |            |         |           |         |
| <b>Take-up in m<sup>2</sup> - 2020</b><br>leased and owner-occupied space    | 705,000 | 85,000  | 65,000  | 284,000    | 89,000  | 333,000   | 350,000 |
| <b>Take-up in m<sup>2</sup> - 2019</b><br>leased and owner-occupied space    | 986,000 | 96,000  | 95,000  | 525,000    | 165,000 | 561,000   | 540,000 |
| <b>Take-up in m<sup>2</sup> - 2018</b><br>leased and owner-occupied space    | 840,000 | 95,000  | 85,000  | 390,000    | 128,000 | 616,000   | 565,000 |
| <b>Top rent in 2020</b><br>in EUR/m <sup>2</sup> /month                      | 39.00   | 13.80   | 15.00   | 28.50      | 16.30   | 45.00     | 30.20   |
| <b>Top rent in 2019</b><br>in EUR/m <sup>2</sup> /month                      | 38.00   | 13.50   | 15.00   | 28.50      | 16.00   | 42.50     | 29.50   |
| <b>Top rent in 2018</b><br>in EUR/m <sup>2</sup> /month                      | 34.00   | 13.00   | 14.00   | 28.00      | 15.00   | 41.00     | 27.00   |
| <b>Average rent - entire city in 2020</b><br>in EUR/m <sup>2</sup> /month    | 26.00   | 8.00    | 10.50   | 16.00      | 10.00   | 22.40     | 18.50   |
| <b>Average rent - inner-city in 2020</b><br>in EUR/m <sup>2</sup> /month     | 28.00   | 9.10    | 12.00   | 21.90      | 11.00   | 26.80     | 21.70   |
| <b>Average rent - city periphery in 2020</b><br>in EUR/m <sup>2</sup> /month | 24.50   | 7.90    | 10.00   | 17.50      | 9.00    | 18.10     | 17.20   |
| <b>Average rent - suburbs in 2020</b><br>in EUR/m <sup>2</sup> /month        | 16.00   | 6.80    | 9.00    | 12.90      | 7.30    | 16.60     | 12.50   |
| <b>Vacancy, absolute, in m<sup>2</sup> - end of 2020</b>                     | 390,000 | 118,000 | 115,000 | 600,000    | 100,000 | 810,000   | 440,000 |
| <b>Vacancy, absolute, in m<sup>2</sup> - end of 2019</b>                     | 280,000 | 113,000 | 135,000 | 620,000    | 105,000 | 740,000   | 400,000 |
| <b>Vacancy, absolute, in m<sup>2</sup> - end of 2018</b>                     | 360,000 | 110,000 | 170,000 | 730,000    | 140,000 | 830,000   | 560,000 |
| <b>Vacancy rate in % - end of 2020</b>                                       | 2.0     | 3.4     | 4.6     | 6.4        | 3.3     | 7.0       | 3.0     |
| <b>Vacancy rate in % - end of 2019</b>                                       | 1.5     | 3.2     | 5.3     | 6.6        | 3.3     | 6.3       | 2.8     |
| <b>Vacancy rate in % - end of 2018</b>                                       | 1.9     | 3.1     | 6.8     | 7.8        | 4.4     | 7.1       | 3.9     |
| <b>Projected take-up in 2021</b>   |         |         |         |            |         |           |         |
| <b>Projected top rent - end of 2021</b>                                      |         |         |         |            |         |           |         |
| <b>Projected average rent - entire city - end of 2021</b>                    |         |         |         |            |         |           |         |
| <b>Projected vacancy, absolute - end of 2021</b>                             |         |         |         |            |         |           |         |

n. a. = data not available

|  | Hanover | Karlsruhe | Cologne | Leipzig | Magdeburg | Munich  | Nuremberg | Stuttgart | Amsterdam |
|--|---------|-----------|---------|---------|-----------|---------|-----------|-----------|-----------|
|  | 130,000 | 70,000    | 174,000 | 128,000 | 22,000    | 600,000 | 48,000    | 220,000   | 180,000   |
|  | 135,000 | 59,000    | 282,000 | 140,000 | 23,000    | 840,000 | 92,000    | 305,000   | 290,000   |
|  | 160,000 | 68,000    | 297,000 | 135,000 | 23,000    | 932,000 | 90,000    | 220,000   | 450,000   |
|  | 17.00   | 15.00     | 26.00   | 16.00   | 13.50     | 40.00   | 16.00     | 25.00     | 38.00     |
|  | 17.00   | 15.00     | 26.00   | 15.50   | 13.50     | 40.00   | 16.00     | 24.00     | 35.50     |
|  | 15.50   | 15.00     | 22.50   | 14.00   | 12.75     | 38.50   | 15.50     | 23.00     | 33.00     |
|  | 10.00   | n. a.     | 15.00   | 10.00   | n. a.     | 22.50   | 12.00     | 16.00     | 20.80     |
|  | 11.20   | 12.50     | 17.00   | 10.80   | 9.80      | 27.00   | 13.00     | 17.00     | 20.80     |
|  | 9.40    | 12.00     | 13.50   | 9.50    | 8.50      | 16.00   | 11.10     | 12.50     | 16.65     |
|  | 7.90    | 11.00     | 8.90    | 6.70    | 6.50      | 12.00   | 10.00     | 10.00     | 12.50     |
|  | 142,000 | 92,000    | 232,000 | 185,000 | 72,000    | 590,000 | 85,000    | 200,000   | 372,000   |
|  | 135,000 | 83,000    | 185,000 | 188,000 | 73,000    | 500,000 | 65,000    | 170,000   | 553,500   |
|  | 150,000 | 80,000    | 230,000 | 235,000 | 75,000    | 645,000 | 125,000   | 170,000   | 1,019,300 |
|  | 3.1     | 3.5       | 2.9     | 5.5     | 7.0       | 2.9     | 2.3       | 2.5       | 6.2       |
|  | 2.9     | 3.3       | 2.4     | 5.6     | 6.9       | 2.5     | 1.8       | 2.1       | 5.0       |
|  | 3.3     | 3.3       | 3.0     | 6.9     | 7.2       | 3.3     | 3.5       | 2.2       | 8.8       |
|  | →       | →         | ↗       | →       | →         | ↘       | →         | ↘         | ↘         |
|  | →       | →         | →       | →       | →         | →       | →         | ↘         | →         |
|  | →       | →         | →       | →       | →         | ↘       | ↘         | ↘         | ↘         |
|  | →       | ↗         | ↗       | ↗       | ↘         | ↗       | ↗         | ↗         | ↗         |

# The market for office space

## Dynamics on the German office markets substantially slowed down

During the 2020 reporting year, the office space market was considerably characterised by the Covid-19 pandemic and saw, until the end of that year, substantially lower take-up dynamics compared to the previous years. It is no surprise that all the restrictions on day-to-day life also drastically affected the working environment:

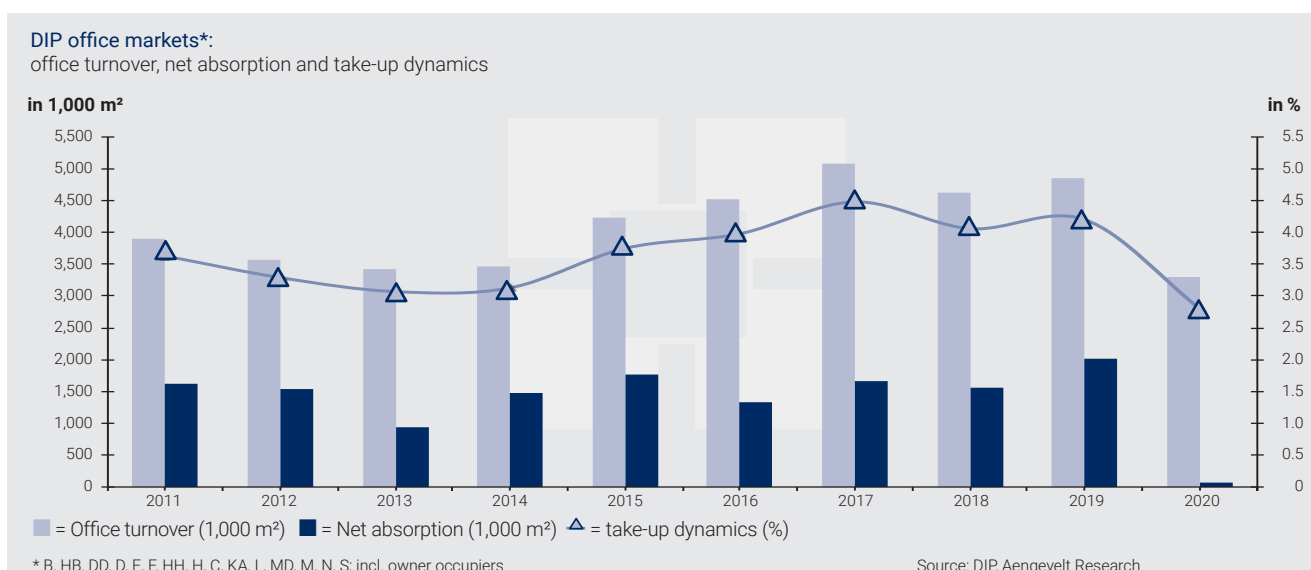
- Contrary to the medical, health and logistics sectors, numerous other industrial sectors demanding business spaces (in particular tourism, retail, automotive industry, aviation industry, cultural industry, services closely related to businesses) suffered from heavy losses in revenue forcing them to cut their staff and their costs, including rents.
- Due to an overall positive experience with their personnel working from home, a large number of companies started to think about reducing their demand for office spaces in the future.
- Uncertainty with regard to the development of the pandemic and all the economic effects related to it often prompted investors to postpone any investments they intended to make.

Depending on the degree to which they were affected, companies implemented different measures which, in total, led to a reduction of the demand for office spaces: abandoning expansion plans (that is, the renting of additional office spaces

which a company had originally intended to do) or reducing the size of rented office spaces by sub-letting them, by refraining from renewing tenancy contracts or even by cancelling existing ones. Following the abrupt and massive drop in April/May 2020, the rest of the year saw dynamics increasing again in many areas, particularly during the fourth quarter.

### Office space take-up significantly lower than in the previous year

- Whilst a total of about 4.84 million m<sup>2</sup> of office space had been traded at the 15 analysed DIP locations in 2019, the transaction volume in the subsequent year, that is, in 2020, fell by about 1.54 million m<sup>2</sup> and/or 31.8 % to approx. 3.3 million m<sup>2</sup>. The most recent take-up figure is the lowest since 2009 and it is about 19.6 % below the average sales value of the past decade (Ø 2011 – 2020: 4.1 million m<sup>2</sup> per year).
- About 2.66 million m<sup>2</sup> or 80.7 % of office space take-up at all 15 DIP locations were traded in the seven biggest German office space markets (Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart). Accordingly, this constituted a 34.0 % lower space take-up than in 2019 (4.04 million m<sup>2</sup>). The four markets which generated the highest take-up in 2020



include Berlin (705,000 m<sup>2</sup>), Munich (600,000 m<sup>2</sup>), Hamburg (350,000 m<sup>2</sup>) and Frankfurt am Main (333,000 m<sup>2</sup>).

- Take-up dynamics, i.e. the share of space take-up compared to existing buildings, reached a significantly lower level than in the previous year (2020: 2.8 %, 2019: 4.2 %). Space take-up at the 15 DIP markets was most dynamic, i.e. exceeding the average performance (2.8 %), on the markets in Leipzig (3.8 %), Berlin (3.6 %), Düsseldorf (3.0 %), Munich (2.95 %) and Essen (2.9 %). Frankfurt am Main and Hanover (2.8 % each) as well as Stuttgart (2.75 %) exhibited more or less average growth dynamics. More moderate office space take-up volumes, on the other hand, were recorded in Karlsruhe (2.6 %), Dresden (2.6 %), Bremen (2.45 %), Hamburg (2.4 %), Cologne (2.2 %), Magdeburg (2.0 %) and Nuremberg (1.3 %).

## Net absorption amounting to levels of close-to-zero growth

With net absorption amounting to only 40,000 m<sup>2</sup> in 2020, that is, recording close-to-zero growth rates, we saw the lowest value we have ever recorded. Positive net absorption means that the overall size of office spaces newly rented by companies during the reporting period is higher

than that of vacant spaces which companies left. If net absorption is negative during the reporting period, the overall size of vacant office spaces is larger than that of newly rented office spaces. The 2020 reporting year clearly missed the long-term positive average value (2011 - 2020: 1.42 million m<sup>2</sup>). After net absorption of office space on the German office space markets had fallen to less than one million square metres as a result of the economic slowdown and a corresponding polycyclic hesitation to rent by 2013, the positive economic development in the years until and including 2019 led to a persistently higher net absorption rate. About 1.6 million m<sup>2</sup>/a were absorbed on average between 2014 and 2018. In the year of 2019, net absorption even amounted to about 2.0 million m<sup>2</sup> of office spaces. The pandemic certainly put a sudden end to robust growth rates we have been seeing with the demand for office spaces. However, at least we can say that, on an overall basis, demand for office spaces did not go down on the relevant markets we analysed, in spite of the difficult market situation.

## Slight increase in office space surplus

Given the low net absorption, the total amount of office spaces available at short notice on the 15 German markets that were analysed rose by about 379,000 m<sup>2</sup> to about 4.17 million m<sup>2</sup> of office space in the course of 2020, as forecast by DIP. The average vacancy rate on the 15 DIP markets thus rose from 3.3 % at the end of 2019 to 3.6 % over the course of the year.

On average, around 10 % more office space has been available since December 2020 for renting at short notice than only a year before. Hence, the trend of supply reserves rapidly melting away was stopped for now:

- The markets characterised by particularly dynamic increases in supply reserves in 2020 include Berlin (39.3 %), Nuremberg (30.8 %), Cologne (25.4 %), Munich (18.0 %) and Stuttgart (17.6 %).
- We saw supply reserves increase on a comparatively moderate basis in Karlsruhe (10.8 %), Hamburg (10 %), Frankfurt (9.5 %), Hanover (5.2 %) and Bremen (4.4 %).
- Moderate decreases in the supply reserve were analysed in Essen (-4.8 %), Düsseldorf (-3.2 %), Leipzig (-3.2 %) and Magdeburg (-1.4 %). With a decrease amounting to 14.8 %, Dresden was clearly on top of this classification.

