Commercial properties market

Healthy industry mix contributes to stable growth

Düsseldorf's successful transformation from a city dominated by industry into a thriving centre of the service sector can be put down to its multifaceted economic structure. But although the focus has shifted towards tertiary industries, the industrial/commercial segment still has a major role to play in Düsseldorf: with a total workforce of around 58,000, the city is North Rhine-Westphalia's second largest employer in the manufacturing sector.

Düsseldorf's highly developed manufacturing industry is made up of small and medium-size companies as well as large corporations, forming a fundamental part of the local economy. How well the sector is developing can be seen from the constantly increasing proportion of total manufacturing revenue accounted for by exports. The figure climbed from 35.6% in 1998 to 47.0% in 2008 and in absolute terms, export sales even recorded an overall rise of 74% over the same period – growing from 3.87 billion euros in 1998 to 6.73 billion euros in 2008. What is more, the city can boast a healthy sectoral mix of major wholesalers and exporters, transport and logistics companies, industrial service providers and, of course, small trades. This is also reflected in the local demand for commercial properties.

Demand for commercial properties and warehouse space

Bucking the recent trend of waning takeup, the number of enquiries made by companies seeking commercial properties in Düsseldorf has remained relatively stable and has all but kept up with the high level of previous years. In 2009, the Office of Economic Development registered a total of 118 enquiries for warehouse facilities, which was the same amount as in 2008. At 156,200 m² the volume of warehouse space required, however, exhibited a fall of 20% on last year's figures.

A total of 96 companies enquired after commercial sites, with the overall area required amounting to 930,350 m². This represents a drop in commercial demand of 30% against the record years of 2007 and 2008. However, if we compare this with the average demand volumes in the preceding period of 2003 to 2006 (approx. 580,000 m²), demand has grown by 37% and can thus still be seen in a very positive light.

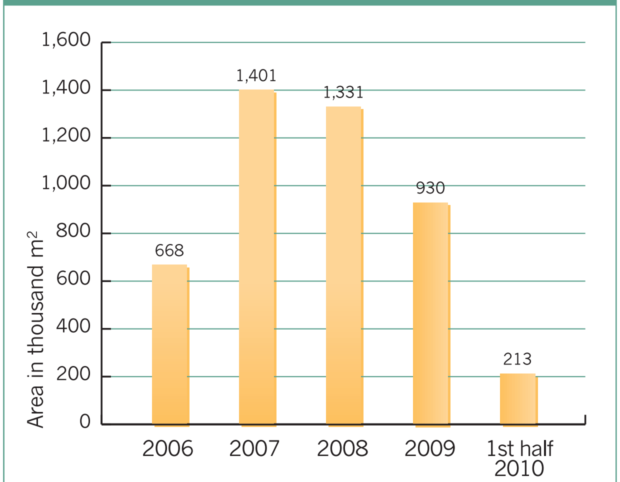
The decline in the volume of commercial property required, despite the same number of incoming queries, can be put down to a number of factors, notably a change in the size of properties requested. This applies to both the demand for warehouse space and commercial plots.

Demand by sector

The sectoral make-up of demand has also seen changes. One phenomenon that is particularly striking is that the demand for sites and rental properties from the manufacturing sector over the last 18 months has almost doubled compared to the previous reporting period.

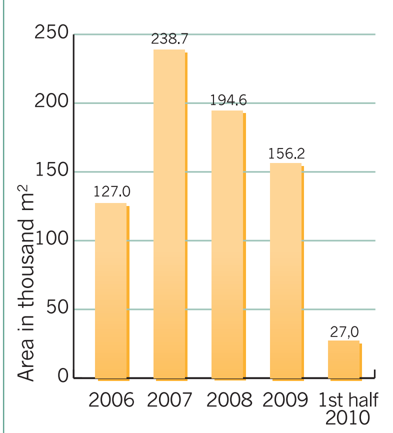
This development has been strongly influenced by the fact that an increasing proportion of enquiries (35%) came from foreign manufacturers; another third was made by companies in other federal states, with the remaining enquiries coming from

Demand for undeveloped commercial sites, 2006 to 1st half of 2010



Source: Office of Economic Development

Demand for existing warehouse space, 2006 to 1st half of 2010
(sales, service, storage, production)



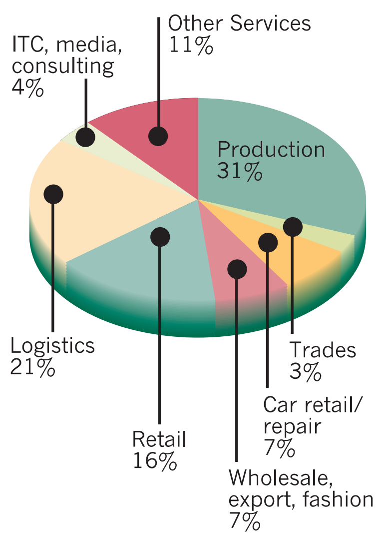
Source: Office of Economic Development

Düsseldorf and the surrounding region. This equates to a 15% rise in the proportion of out-of-state and international enquiries, if compared with the middle of the decade – a clear indication that Düsseldorf and the Rhine-Ruhr region are enjoying increased international eminence.

At 22%, the share of rental enquiries from the wholesaling and export sector remains stable – an ongoing confirmation of Düsseldorf's significance as Germany's No. 2 location for wholesale and export. The proportion of demand filled by the logistics sector remains strong at 21%. Thanks to excellent transport links and its first-class location at the heart of the Rhine-Ruhr region, the state capital continues to attract the interest of product developers, investors and users.

The demand for sites from both small- and large-format retailers has also remained high at 16%. This particularly highlights Düsseldorf's role as a regional centre with a high degree of retail centrality (consumers coming to the city from surrounding catchment areas), as well as the purchasing power per inhabitant, which is considerably higher than the national average.

Demand for building sites by industry sector, 2009 to 1st half of 2010



Source: Office of Economic Development

Size categories

By way of contrast, enquiries for large spaces in both segments come from the manufacturing sector, wholesale and export, logistics, the services sector and large-format retail. The enquiries for large-scale real estate made by predominantly recreationally oriented and personal service companies concentrate largely on usages such as sport and rehabilitation centres, entertainment restaurants and event halls.

The bulk of the size demand in terms of both rentals and commercial site requests is mainly small-scale. 76% of warehouse space requests are for less than 1,000 m² and these now make up the majority of rental requests. Around 60% of small-scale site requests concerned properties between 500 and 4,000 m². In both segments, the largest number of requests came from smaller-scale trades, retailers and commercial service companies (industrial cleaning, catering, laundry services etc.).

Warehouse takeup

Despite the relatively stable demand, 2009's global financial and economic crisis has left its mark even in Düsseldorf and the surrounding region. The impact has been particularly noticeable in terms of warehouse takeup in Germany's 'Big 5' economic centres. Of these 5 major conurbations, the regions of Berlin, Munich and Düsseldorf have had to cope with significant reductions in warehouse demand. While the Düsseldorf region registered a drop of 27%, the city itself had to cope with a takeup of just 14,200 m² last year.

The results in Düsseldorf from the first half of 2010, however, paint a much more positive picture: at 26,300 m², warehouse takeup figures were already almost double that of the total business for 2009 and made up more than 1/3 of total demand throughout the entire region. Regional figures also showed a slight improvement over the same period last year – 75,000 m² compared with 71,000 m² in the previous year.

Takeup of warehouse space in the Düsseldorf municipal area/region in m²

	2004	2005	2006	2007	2008	2009	1st half 2010
Düsseldorf municipal area	20,000	38,000	68,200	57,400	24,400	14,200	26,300
Region* (incl. municipal area)	216,000	159,000	236,600	221,600	242,500	178,000	75,600

*Region = Düsseldorf municipal area, Ratingen, Neuss, Erkrath, Hilden, Grevenbroich, Haan, Kaarst, Krefeld, Langenfeld, Meerbusch, Willich.

Source: Jones Lang LaSalle GmbH, 30 June 2010

Takeup of real estate and developed properties

The market for undeveloped sites designated for commercial-industrial usage and developed commercial properties has declined significantly in comparison with 2008.

The city's Property Valuation Committee registered a total of 13 real estate purchases totalling 10.7 ha in 2009. Leaving aside three large-scale real estate acquisitions made by the city itself, these were mainly smaller-scale property deals ranging from 700 to 7,000 m² made by private users. Compared with 2008, the monetary value of sales fell by 27% to 18.3 million euros.

The number of transactions in the commercial property sales segment fell from 18 in 2008 (with a takeup of 16.2 ha) to 12 registrations (with a takeup of around 7.6 ha) in 2009. The revenue realised decreased from 43.9 million euros in 2008 to about 21.0 million euros in 2009.

This development cannot be put down solely to the economic crisis. It also shows that the market has been, to a great extent, exhausted following large-scale purchases and premium developments in prime locations, such as those transacted during the record years of 2007 and 2008 by major foreign investors such as SEGRO, Sirius and Goodman (approx. 48.7 ha). Their main priority now is the development of these properties. After preparation of the land for construction, these properties will have to be taken up by the market. Here, however, recent takeup developments have led to a certain degree of delay. Another reason for the drop in takeup has been the less favourable conditions on the capital market which – in view of the financial crisis – is no longer prepared to finance speculative construction projects.

With the exception of the sale of one 3.6 ha industrial brownfield site, takeups during 2009 and the first half of 2010 have covered the demand for smaller and medium-sized real estate and buildings.

Continuing a trend already observable in 2007 and 2008, purchasers of industrial and commercial properties put land value first in their pricing decisions: in 2009 and the first half of 2010, 50% of sales contracts were made purely on the grounds of land price, with existing buildings hardly being factored in at all. Based on the total sales volume achieved during this period, this amounts to a share of 55% of all areas taken up and a share of 23% of sales revenues.

Developed properties submarket, 2006 to 1st half 2010 – sales of commercial sites*

Year	Number of transactions	Total area of plots sold in m²	Average area per sale in m²	Total selling price in euros (rounded to nearest 1,000)
2006	32	138,608	4,332	96,422,000
2007	22	250,705	11,396	52,140,000
2008	18	162,160	9,009	43,907,000
2009	12	75,810	6,318	21,093,000
1st half 2010	7	39,012	5,573	19,347,000
Average per year	**20**	**148,066**		**51,757,556**
Average per transaction			**7,322**	

*Incl. manufacturing, workshops, logistics, commercial units with offices, leisure facilities, petrol stations, multi-storey car parks and retail.

Sources: City of Düsseldorf Property Valuation Committee/Office of Economic Development

Undeveloped properties submarket, 2006 to 1st half 2010 – sales of commercial sites*

Year	Number of transactions	Total area of plots sold in m²	Average area per sale in m²	Total selling price in euros (rounded to nearest 1,000)	Average area price per m² in euros**
2006	20	155,243	7,762	34,950,000	202
2007	20	489,213	24,461	70,301,000	204
2008	16	122,699	7,669	25,242,000	217
2009	13	107,284	8,253	18,305,000	180
1st half 2010	3	1,683	561	302,000	189
Average per year	**16**	**194,694**		**33,133,000**	**199**
Average per transaction			**12,168**		

*Incl. manufacturing, logistics, commercial units with offices, petrol stations, multi-storey car parks and retail. **Sum of all average values per sale/no. of sales per year (not incl. transfers of ownership within companies or land with residential properties).

Sources: City of Düsseldorf Property Valuation Committee/Office of Economic Development

This very noticeable trend clearly reveals that investors are reacting to the shortage in undeveloped commercial property by buying up sites with existing buildings and then recycling these for alternative commercial usages.

The figures from the first half of 2010 – namely, seven transactions for developed properties with a total sales value of 19.3 million euros – show that the real estate market is experiencing a slight recovery. However, as yet no fundamental turnaround is apparent.

Development of key performance indicators for undeveloped commercial property in Düsseldorf, 2007 to 2010

Effective Date	Basic locations		Medium to good locations		Premium locations	
	Harbour, Lierenfeld (industry/production) from – to in euros/m²		Rath, Heerdt, Benrath (business with office) from – to in euros/m²		Flingern, Heerdt (office/retail) from – to in euros/m²	
01/01/2007	120	150	190	280	590	650
01/01/2008	140	150	200	300	610	670
01/01/2009	140	150	200	300	610	670
01/01/2010	130	140	180	290	570	620

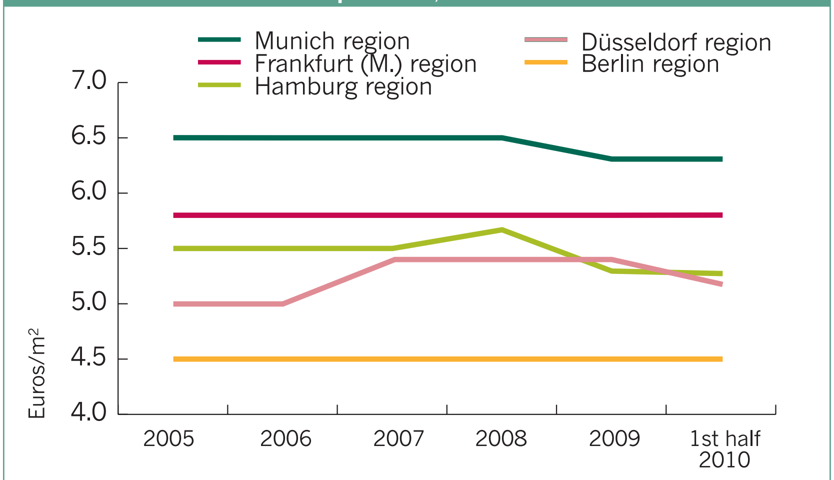
Source: City of Düsseldorf Property Valuation Committee
Figures have been taken from the price contour map; the districts named are intended merely as examples.

Property and rental prices

The decline in real estate takeup is also being reflected in land prices. In 2009, the Property Valuation Committee noted a 7% fall in the prices of undeveloped industrial and commercial properties in basic, medium and premium locations.

Rental costs for warehouse space in Düsseldorf, however, have remained stable. The rental price range within the municipal area remains unchanged at 3.75 euros/m² to 5.50 euros/m². The high-end rents are still being seen in northern Düsseldorf around the airport. Compared to other German conurbations such as Munich, Frankfurt, Hamburg and Berlin, Düsseldorf continues to offer good value in terms of rental prices.

Prime rents for warehouse space ≥ 5,000 m²



Source: Jones Lang LaSalle GmbH

Outlook

The German economic recovery is making itself felt in Düsseldorf: on the one hand, through increasing company recruitment levels, and on the other, through the rise in the number of inquiries for real estate. Added to the promising figures for the first half of 2010 – especially the level of warehouse takeup and revenues in the commercial properties segment – this bodes well for the market's development over the coming months. Thanks to its unique locational qualities and broad-ranging economic structure with its significant proportion of commercial/industrial enterprises, Düsseldorf has managed to survive the worldwide financial crisis without any major damage. The city's focus in driving location development is to provide and expand the world-class infrastructure and prerequisites necessary to attract commercial and industrial companies.

This includes extending the offering of existing, attractive warehousing and manufacturing sites in the city's many business parks, industrial estates and tradesmen's yards as well as ensuring the continuing supply of land available for industrial and commercial development.

Images: Marcus Krämer, Düsseldorf
Design: Beate Tebartz, Düsseldorf