Office rental market

Düsseldorf's market for office property has developed positively since last year

Review of 2010

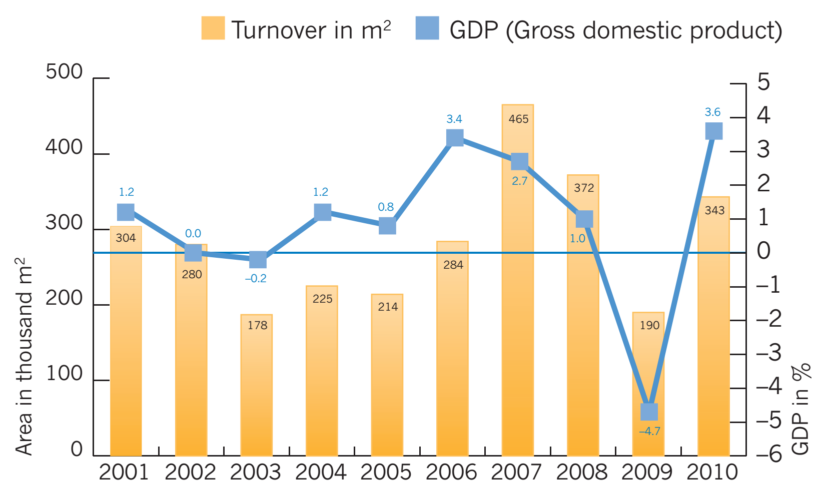
Office take-up in Düsseldorf's city area increased last year from 190,700 m² (2009) to 343,000 m² (2010), corresponding to an increase of 55%. This increase in turnover was higher than in the other important real estate markets in Germany such as Berlin, Frankfurt am Main, Hamburg and Munich. On average, an increase of 26% was recorded in the five so-called office real estate strongholds. The entire region, including the cities of Neuss, Ratingen, Erkrath and Hilden, an office take-up of 382,000 m² was recorded, an increase of approximately 40%.

It is striking how strongly the take-up in Düsseldorf co-relates with the development of GDP. This means that the office real estate market in Düsseldorf is reacting to fluctuations in the economy just as directly as the labour market.

Office space take-up in 2010

In addition to the recovery of the economy, the letting of the Vodafone building with more than 90,000 m² of usable space, contributed to this distinct upturn. Moreover, there were additional large-scale rentals such as Rölfs & Partner (9,700 m²), AXA Services (8,800 m²), Ericsson GmbH (8,850 m²), AOK Rheinland (8,000 m²) or the DWP Bank (8,000 m²). It should be noted that all these rental agreement closures by the major tenants listed above were carried out in the form of a preliminary letting in new construction projects. High-quality, newly built premises offer companies competitive advantages in attracting good employees. Moreover, many companies have used the positive economic situation to exchange their old existing premises for modern premises.

Office space take-up 2001 to 2010 in the context of the economy



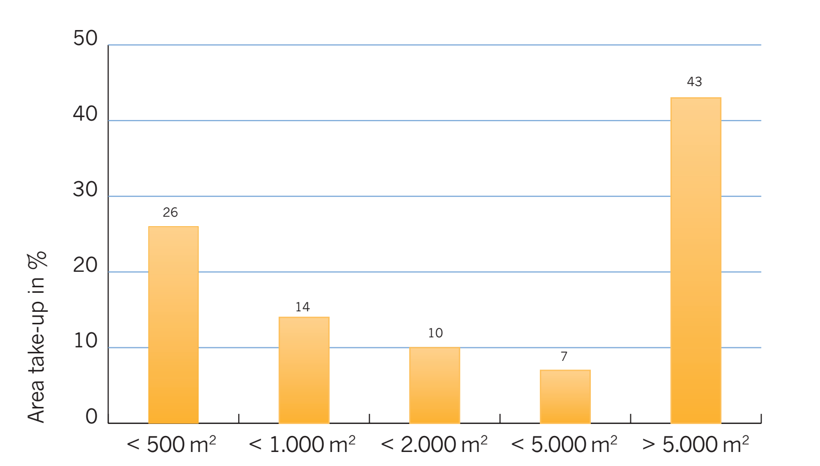
Sources: Federal Statistics Office, Office of Economic Development

Top ten rentals/space takeups in 2010

- **Vodafone D2:** 90,000 m² (Seestern-Extension Area)
- **Rölfs & Partner:** 9,700 m² (City Centre North)
- **AXA Colonia:** 8,800 m² (Seestern-Extension Area)
- **Ericsson GmbH:** 8,856 m² (Seestern-Extension Area)
- **AOK Rheinland:** 8,000 m² (Seestern-Extension Area)
- **DWP Bank:** 8,000 m² (Northern Derendorf)
- **Cemex:** 6,600 m² (Düsseldorf North)
- **Gebau (Eigennutzer):** 5,500 m² (Seestern)
- **GEA:** 4,800 m² (Airport)
- **Eurowings Luftverkehr AG:** 4,200 m² (Airport)

Sources: gif research group/Office of Economic Development

Office space take-up in 2010 by size of area let



Source: Trombello Kölbel Immobilienconsulting GmbH

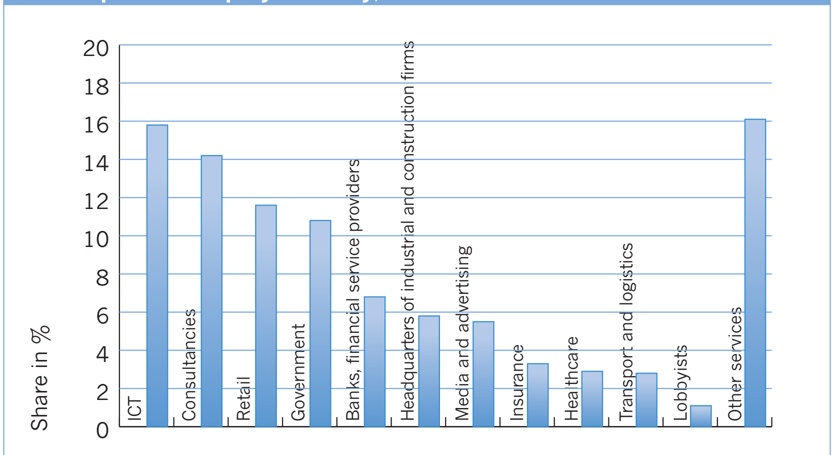
The largest share of take-up was accounted for by rental agreements for more than 5,000 m². The second most important letting category was however to be found in the so-called small premises segment for less than 500 m² with roughly a quarter of the take-up. 75% of all agreements were signed in this segment, i.e. 333 of 442 contracts. Many smaller and medium-sized companies have decided to rent efficient operating premises.

Left: SIGN! in the Media Harbour

Rental price development in 2010

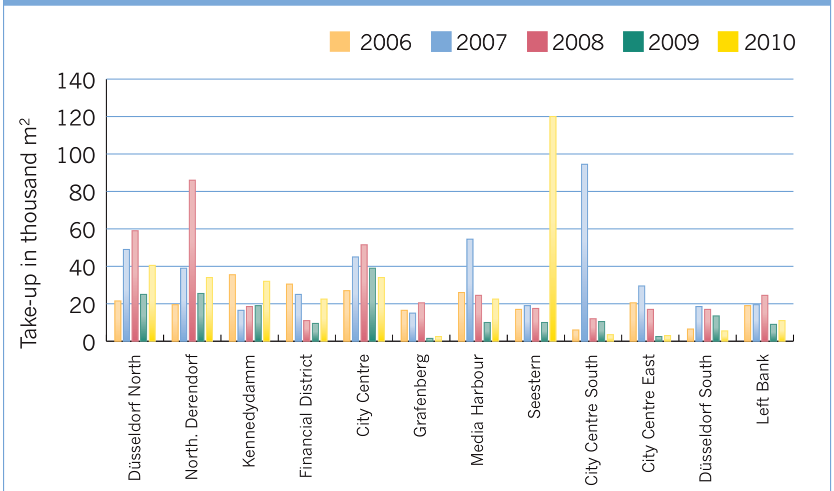
The positive trend in the office letting market has led to a slight increase in rents. The top rental achieved increased to 22.55 euros/m^2 and can easily be achieved since there is increased demand, particularly in the most competitive sub-markets, accompanied by a limited supply. The average rental price of 13.45 euros/square metres remained at a stable level, even though there is a consider-

Office space takeup by industry, 2005 to 2010



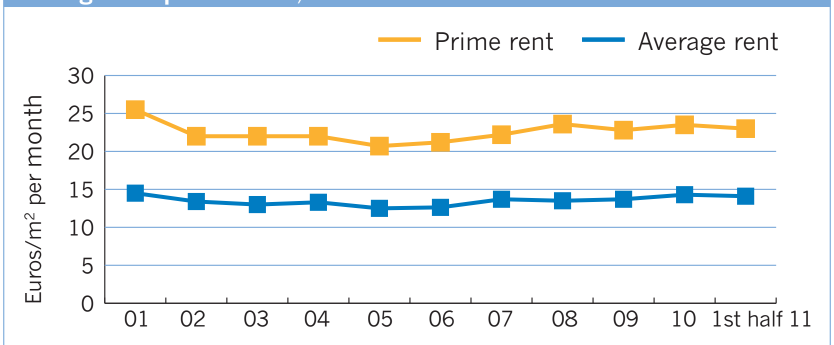
Sources: BNP Paribas Real Estate, Office of Economic Development

Development of office space takeup in selected submarkets, 2006 to 2010



Quellen: BNP Paribas Real Estate GmbH, Office of Economic Development

Average and prime rents, 2001 to 1st half of 2011



Sources: gif research group, Office of Economic Development

Breakdown by industry

The information and communications business achieved the largest share of take-up in 2010 with the major letting of the Vodafone building and seen over the long term has with this development pushed its way right to the front. This industry is followed by consultancies, retail and public administration, in this case primarily institutions of the state of North Rhine-Westphalia with numerous major lettings in the last few years. Since the industrial segment "other services" also includes many business activities that are not specific to a particular industry, the share accounted for by this category is generally high.

Office sub-markets in 2010

The geographical focus of take-up in office locations was to be found primarily in places where premises could be offered in new office buildings or office projects. In 2010, this was the Seestern with approximately 120,000 m^2, because not only Vodafone is moving into the new campus, but also other major tenants have decided in favour of this location. Moreover, numerous rental deals are to be found in the prospering sub-markets at the airport, Derendorf in the north but also established office districts such as the inner city, Kennedydamm and the banking area along the Königsallee.

able supply of property in almost all locations. This allows the conclusion to be drawn, amongst other things, that no properties in Düsseldorf are let at excessive prices purely to reduce un-let office areas. Moreover, several rental agreements were concluded for new or planned premises that are in a higher rental category.

Vacancies in 2010

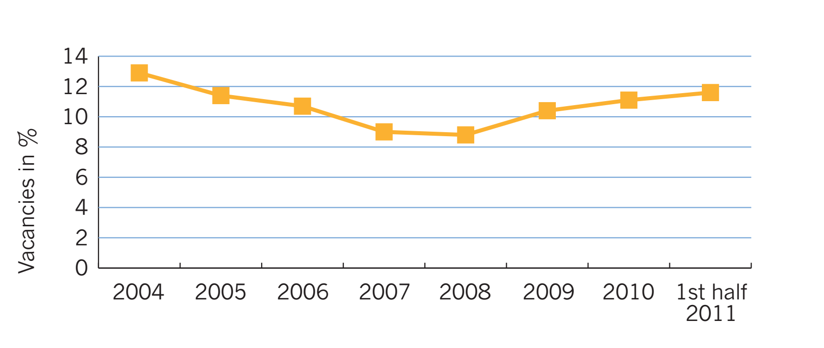
In spite of the increase in space take-up in 2010, there is no sign of a reduction in the volume of vacancies. 829,200 m^2 of office space was empty at the end of the year, that corresponds with 11.1% of the total stock of office space in Düsseldorf. A large percentage is accounted for by so-called base or structural vacancy rate, that is to be found in older, C-category properties. In Düsseldorf, this is approximately 10% of all vacancies. In the absence of uniform criteria, there are wide variations here in the market data. There is a considerable investment backlog here and it remains to be seen whether the owners will reduce this.

The office rental market in the first half of 2011

Contrary to previous years, the figures for the first half-year and the latest economic forecasts indicate that the office rental market will develop positively during the letting year 2011. A large-scale rental like that of Vodafone in 2010 is not anticipated and the amount it generated cannot really be compensated for. An increase in rental agreements concluded and also in the letting of medium-sized premises in the first half of 2011 have nevertheless led to a total take-up of 148,000 m^2. This value at the end of the half-year is only slightly below the average value of the previous years. The major lettings in the first half of 2011 were largely accounted for by preliminary lettings in office projects. The Publicis Group will move into a new office building in the residential and office quarter “Quartier Central” and KPMG plans an extension in a new building at their current location. Moreover, the Bau- und Liegenschaftsbetrieb and LEG NRW have also sign rental agreements in excess of 5,000 m^2.

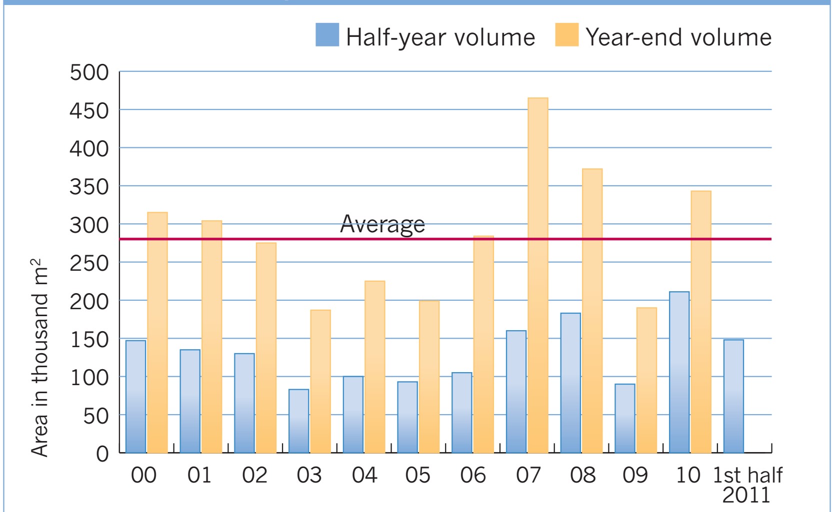
The high-end rental price has now increased in Düsseldorf to 23.00 euros/m^2 und average rental prices even more distinctly to 14.10 euros/m^2. The high-end rent was once more achieved in the office location of the banking area on the Königsallee. The average rent has increased and has been positively influenced above all by the rental agreements concluded

Development of vacancies within city limits, 2004 to 1st half of 2011



Sources: gif research group/Office of Economic Development

Office space takeup 2000 to 1st half of 2011 in the Düsseldorf municipal area



Sources: gif research group/Office of Economic Development

Lighthouse in the “Entrepreneurs’ City”

for newly built premises and as preliminary lettings in office projects as well as by the numerous small rental agreements in the inner city.

It can be clearly recognised that as regards rentals in office locations, a sustained rental price development is possible in locations with a good supply of premises. In locations such as the airport or in Derendorf in the north of the city, rents of between 14.00 and 16.00 euros/m² and on Kennedydamm even as high as 17.00 euros/m² can be achieved on average. The extent to which the rent depends on the location and the quality of the premises becomes clear when only established properties can be re-let in an office location, as is currently happening in Grafenberg. The outlying location and a limited supply of particularly newly built property have the effect of reducing rents. The increase in rents that has in the meantime taken place at Seestern, partially through the Vodafone letting in 2010, will in future be corrected in a downward direction.

Development of supply reserves

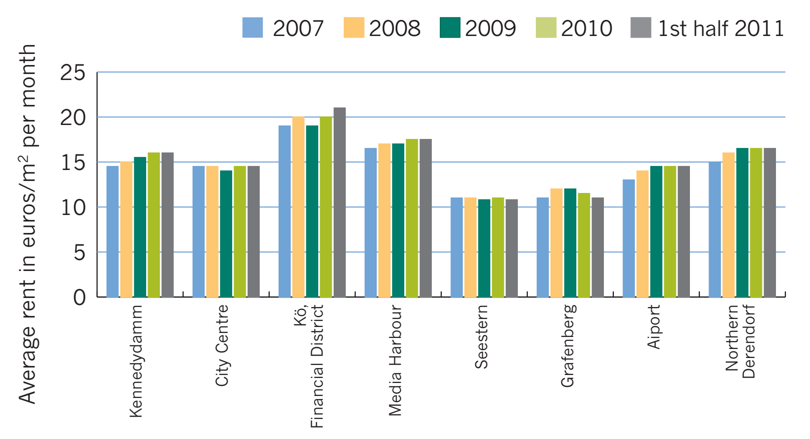
The vacancy rate has already increased once more in the first half of 2011 to 11.6% (approximately 900,00 m²). Due to past very good preliminary lettings in the first half of 2011, the ratio even reached 70%, only a comparatively small share of newly built properties are coming onto the market, as a result of which the ensuing increase in vacancies is bearable. In the future, however, a continued increase in reserves of space should be assumed. Office construction will once more increase and this together with a probable decline in preliminary letting will bring additional office space onto the market. As a result of the continuing demand for prime office premises, there are concrete plans amongst project developers to construct speculative office premises that initially will be considered supply reserves. Moreover the fact that a large part of the office take-up will be generated by firms that are already located in Düsseldorf, a simple reshuffling of premises, will lead to an increase of supply. A re-letting of rented premises that have become free due to an exchange of premises only appears to be realistic in the medium to long-term. First-class equipped category A office premises with double-floors, floor-length windows and air conditioning etc. account for 40% of total supply. The largest part is accounted for by averagely equipped category B property.

Summary and forecast

Since the economic upturn is proving to be stable, the prospects up to the end of the year are comparable with last year's office market data. Although a major letting like that of Vodafone can no longer be anticipated this year, the surface take-up will be in the region of 300,000 m². Due to the large number of rental agreements concluded in the inner city and for newly-built premises or projected office buildings, rents will remain stable. The limited volatility of the development of rents is characteristic for the quality of the office market in Düsseldorf. In spite of economic fluctuations and large reserves of floor space, stable rental prices are important factors in calculating rental costs and in offering developers and investors planning certainty.

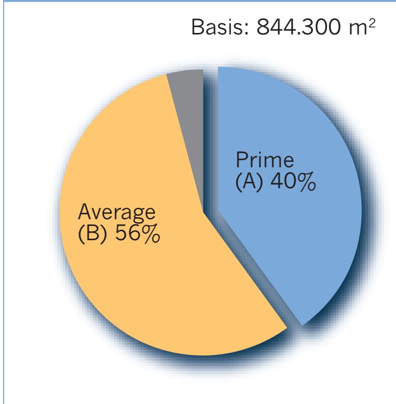
The continuing demand for prime areas leads to a situation in which office space is increasingly built speculatively that will soon lead to an increase in reserve supply.

Development of office rents in selected areas



Source: Office of Economic Development

Supply of office space according to quality of fittings in the inner city of Düsseldorf



Source: CB Richard Ellis

Images: die developer, Frankonia, RMA
Design: Beate Tebartz, Düsseldorf · Real Estate Report 2010/2011