Düsseldorf Office, Q2 2017

Strong first half year on the Düsseldorf office letting market

Take-up 103,400 sq m

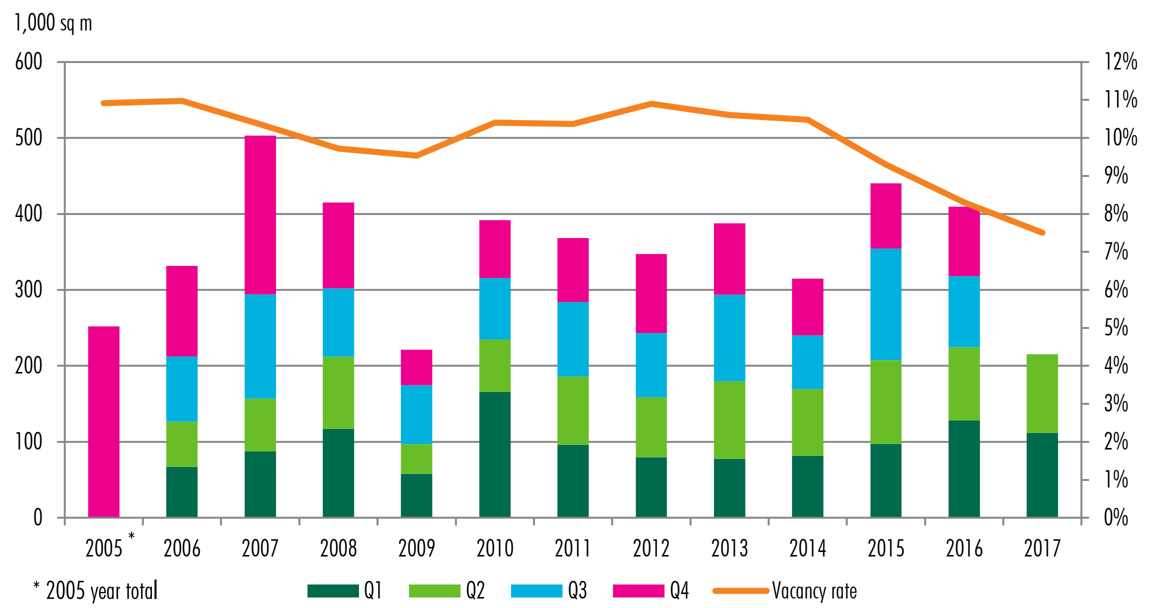
Prime rent €26.50 /sq m

Vacancy rate 7.5%

Completions 23,400 sq m

Arrows indicate change from previous quarter.

Figure 1: Office space take-up and vacancy rate



Source: CBRE Research, Q2 2017.

- Space take-up of 215,200 sq m in the market area is just 4% below the previous year's strong performance
- Vacancy rate fell to 7.5%; 6.6% in the city area of Düsseldorf
- Scarcity of space, particularly in city center submarkets
- Achievable prime rent remains stable at €26.50/sq m/month
- Active investment market in the first half year with a commercial property transaction volume of over €1bn, a 30% increase compared to H1 2016
- Outlook: well filled pipeline over the remaining course of the year

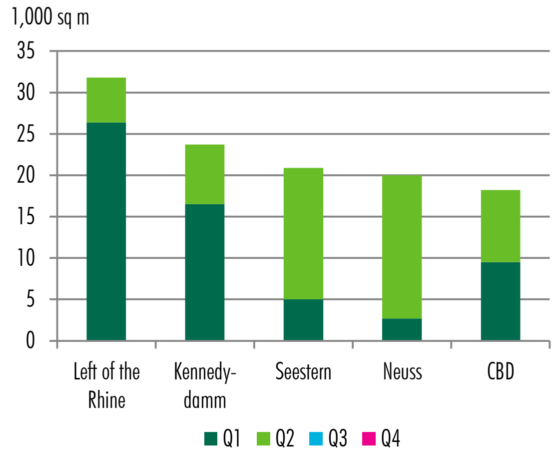
The unemployment rate in Düsseldorf had fallen by 0.6%-points in June to its current level of 7.2%, compared to the same month the previous year. The ifo Business Climate Index for the economic region of North Rhine-Westphalia has improved significantly in terms of both the current sentiment and future expectations. The June consensus forecast anticipates economic growth of 1.6% in Germany over the whole of 2017. The current forecast for 2018 is 1.7%.

OFFICE SPACE TAKE-UP

The office space take-up in the Düsseldorf office letting market (including Erkrath, Ratingen, Neuss and Hilden) was around 215,200 sq m in the first half of 2017, which was just 4% below the same period the previous year. The majority of space take-up of 190,300 sq m was attributable to the city area of Düsseldorf. Whilst this is a slight decrease of 7% compared to the previous year, take-up in the surrounding towns grew by almost 28% to 24,900 sq m, driven particularly by one large-scale transaction in Neuss.

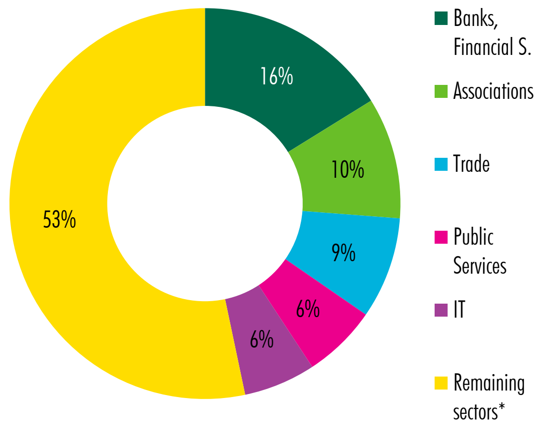
The submarkets Left of the Rhine, Kennedy-damm and Seestern accounted for around a third of all take-up. The average letting size was around 800 sq m. Approximately 36% of all lettings was attributable to the size category below 1,000 sq m. There were seven lettings with more than 5,000 sq m each in the first half year, compared to three in the same period the previous year, including the large-scale letting to Uniper. In addition to the two large lettings to an international bank in Hansaallee and Bankhaus Lampe in Schwannstrasse, both project developments, there was one other transaction greater than 10,000 sq m in the second quarter: the letting to Creditreform in Neuss, who remain committed to the location and will move to a new-build property.

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	9.49	9.42	– 0.7%
Take-up, cumulated, 1,000 sq m	224.5	215.2	– 4.1%
Vacancy, million sq m	0.83	0.70	– 15.7%
Vacancy rate, %	8.7	7.5	– 1.2%-pts
Prime rent, €/sq m/month	26.50	26.50	0.0%
Prime yield, %	4.10	3.60	– 0.5%-pts
Capital value index (Q1 1986 = 100)	198	225	13.6%

Source: CBRE Research, Q2 2017.

OFFICE MARKET RENTS

The sustainable achievable prime rent remains stable at €26.50/sq m/month. The weighted average rent changed only slightly with a marginal increase of 1% to €14.66/sq m/month compared to the previous year. With regard to the Düsseldorf city area excluding the surrounding cities, the weighted average rent was at €15.11/sq m/month, a similar level to the previous year (€14.99/sq m/month).

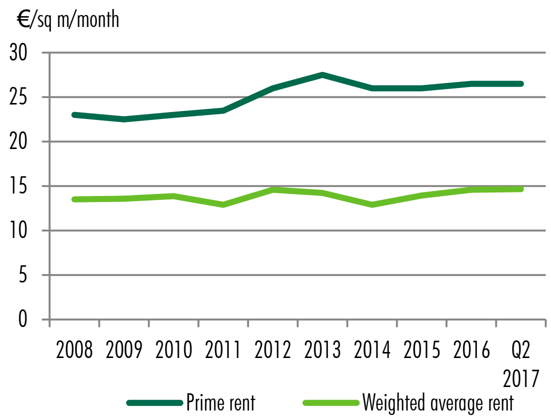
Rental prices for modern office space in the Düsseldorf market continue to increase, driven particularly by the continually high demand for new-build space. Around 44% of all take-up in the first half year was top grade space, including around 55,000 sq m in project developments. Thus, little speculative new-build space came onto the market in the second quarter.

OFFICE SPACE PIPELINE

Of the new-build space expected to come onto the market by the end of 2019, almost 63% has already been pre-let. The majority of the space is therefore either pre-let or owner-occupied prior to the completion of the developments.

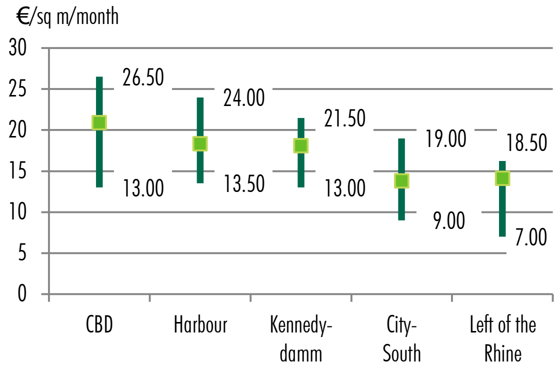
The largest completion volume by the end of 2019 is 59,400 sq m in the Harbour submarket, where only 6% of the space is still available. The majority of the expected completions are in the pre-let projects leased to Trivago and The Float, which will be occupied by Uniper; both are expected to be completed in 2018. There is also a high volume of new office space totalling 43,900 sq m expected for the Kennedydamm submarket, including the Fantastic44 project and a development at Hans-Böckler-Strasse 33. There are still larger space contingents available. Conversely, the new-build project in Schwannstrasse is fully pre-let to Bankhaus Lampe, which signed a new lease for the property in the first quarter of this year. There are also large areas of space totalling almost 113,000 sq m expected to come onto the market in the CBD and city submarkets over the next two and a half years. Around half this space is still available to let.

Figure 5: Prime rent and weighted average rent



Source: CBRE Research, Q2 2017.

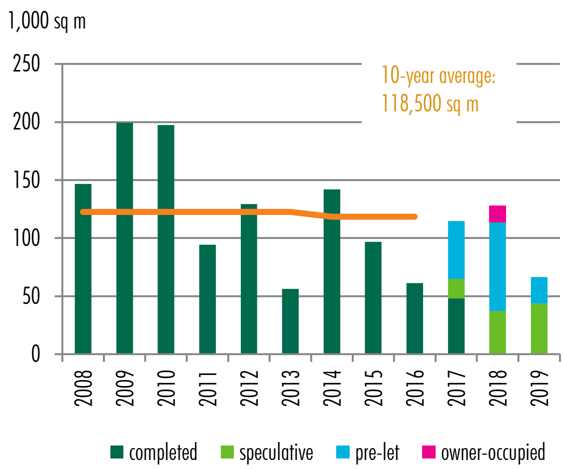
Figure 6: Rental bands by submarkets (Top 5)



Source: CBRE Research, Q2 2017.

Weighted average rent

Figure 7: Office space future supply



Source: CBRE Research, Q2 2017.

VACANCY

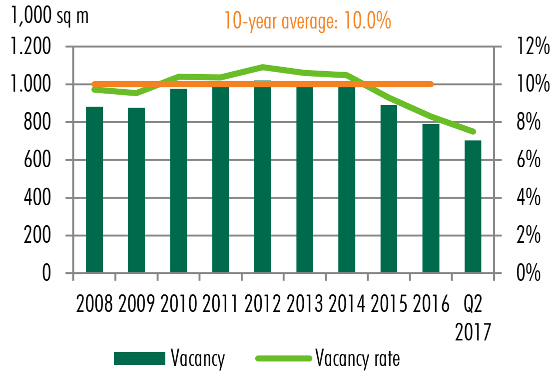
There was a further fall in office vacancy across the market area. This was also due to both a high number of space conversions, mainly to hotel and residential use, and the strong take-up. The vacancy rate in the market (excluding space available for subletting) fell to 7.5%; the total volume of vacant space fell by almost 127,000 sq m compared to the previous year. The vacancy rate in the city area of Düsseldorf is just 6.6%. In addition, much of the space in project developments has already been taken up. There is a lack of supply of large contiguous office space and development sites in the central submarkets. Secondary locations have benefited as a result, due to Düsseldorf's compact urban structure. The submarkets outside the inner city center offer similar locational characteristics and good transport connections, often at more reasonable prices. In addition, a high volume of space will be vacated over the coming year whose current tenants, including L'Oréal and Trivago, will move into new-build properties currently under construction. Therefore, there will be an increase in vacancy in existing properties which will have the effect of relieving the tense supply situation, although not in the central submarkets.

INVESTMENT MARKET

There was a strong first half year performance in the Düsseldorf commercial real estate investment market with a transaction volume of almost €1.1 billion. This was an increase of 30% compared to the previous year's level. Around two thirds of the investment volume was attributable to office properties which were once again the most successful asset class. Around half of the total investment volume was attributable to fund and asset managers, often acting on behalf of international investors.

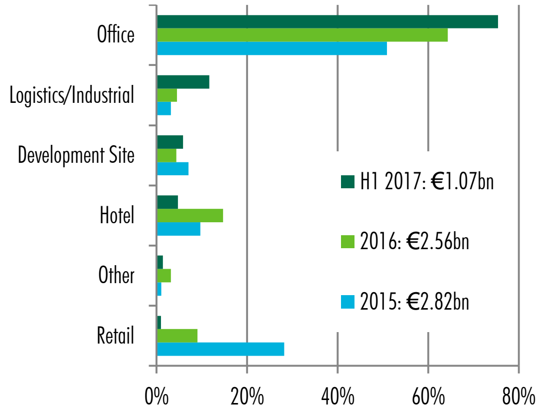
The prime yield for top grade modern office properties in Düsseldorf's prime location, in particular for properties around the €50 million size category, fell to 3.60% at mid-year, which was 30 basis points below the previous quarter and 50 basis points below the same period of the previous year.

Figure 8: Office space vacancy



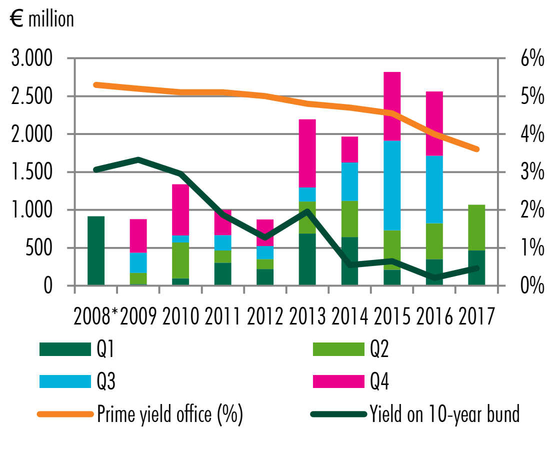
Source: CBRE Research, Q2 2017.

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

New-build space continues to be in particularly high demand. The completion pipeline this year and next year is back to a more normal level than in the past few years in terms of projected volume; however, the already low level and continually falling proportion of speculative space will not be able to fully satisfy demand.

As a result of relocations to new-build properties, supply of existing space is increasing, but in the city center submarkets and the CBD, there is still a lack of large contiguous space, even in existing properties.

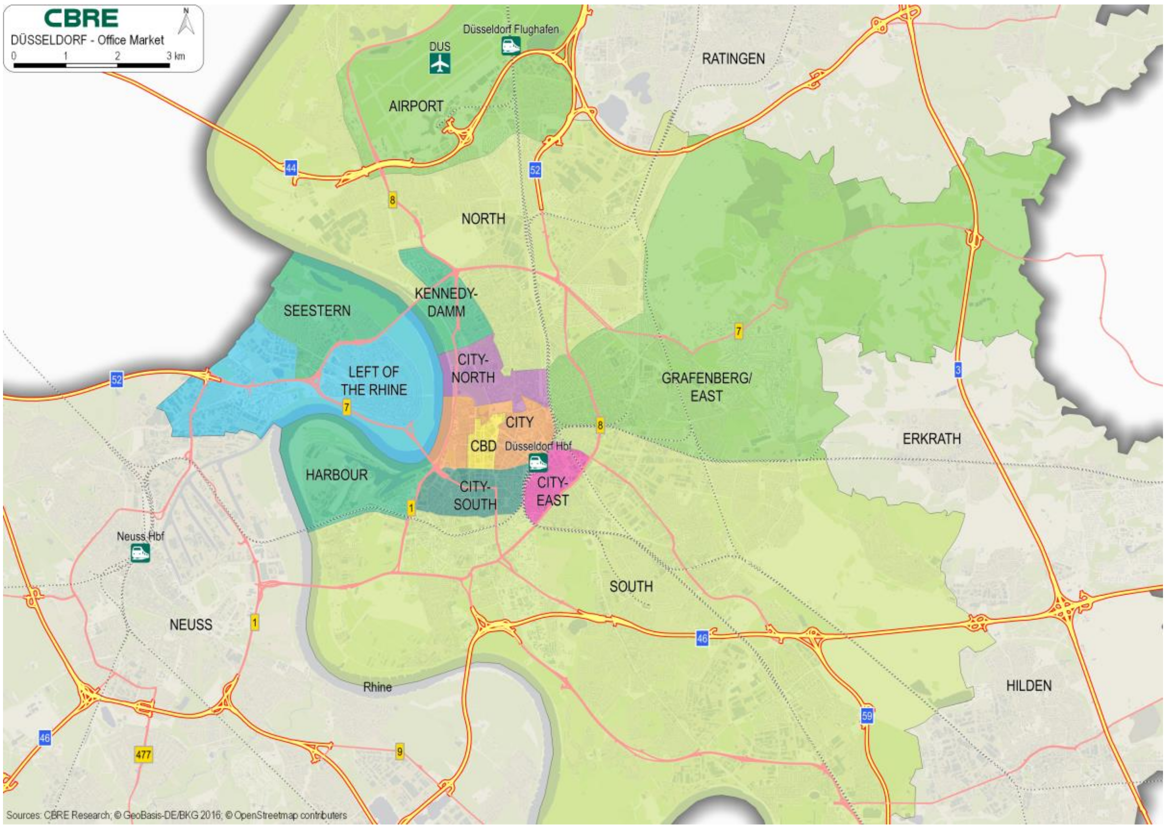
The rental prices for new-builds will continue to increase because of the excess demand, albeit at a moderate rate.

We expect a full-year take–up of more than 400,000 sq m on the office letting market, as there are several large-scale lettings in the size category above 5,000 sq m expected in the second half of the year. Overall, 2017 is anticipated to be another strong year in the Düsseldorf commercial property market.

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)
CBD	18,200	31,400	4.4	13.00 – 26.50	20.93
City	12,900	25,900	3.7	9.00 – 17.50	16.97
City-North	7,000	22,400	3.7	10.00 – 16.00	14.87
City-East	300	14,000	5.1	9.50 – 12.50	15.27
City-South	9,300	19,200	5.6	9.00 – 19.00	13.80
Airport	13,100	11,200	11.2	10.00 – 16.50	11.74
Grafenberg/East	11,200	0	6.8	10.00 – 13.00	11.75
Harbour	14,300	59,400	3.6	13.50 – 24.00	18.33
Kennedydamm	23,700	43,900	4.9	13.00 – 21.50	18.09
Left of the Rhine	31,800	0	11.2	7.00 – 18.50	14.12
D-North	16,800	28,300	11.0	9.00 – 17.00	14.11
Seestern	20,900	0	11.4	7.00 – 14.50	11.68
D-South	10,800	0	4.6	8.00 – 13.50	10.48
Neuss	20,000	0	8.5	7.00 – 10.00	10.90
Ratingen	2,100	5,700	13.8	7.00 – 14.50	9.58
Hilden	800	0	10.6	8.00 – 11.00	10.14
Erkrath	2,000	0	14.6	6.50 – 11.00	n/a
TOTAL	215,200	261,400	7.5	6.50 – 26.50	14.66

Source: CBRE Research, Q2 2017.



GERMANY CONTACTS

Dr. Jan Linsin
Senior Director
Head of Research Germany
+49 69 170 077 663
jan.linsin@cbre.com

Anja Scholz
Senior Analyst
+49 211 860 661 49
anja.scholz@cbre.com

Hubert Breuer
Senior Director
Head of Agency Düsseldorf
+49 211 860 661 88
hubert.breuer@cbre.com

EMEA CONTACT

Richard Holberton
Senior Director
EMEA Research
+44 20 7182 3348
richard.holberton@cbre.com

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