Office Space Shortage in Berlin: Where is it Leading?

Demand for office space in the capital has been strong over the past years fuelled by the flourishing economy and growing employee numbers. National and international companies are flocking to Berlin or expanding their bases here. Vacancy rates are now below 1.8%[1] in central Berlin and below 0.5%[2] in certain prime locations. What can we expect for the office letting market in future: will local companies continue expanding at the same pace and will new-build activity be able to keep up with the demand? What will be the options for companies looking for large and affordable office spaces? We have tried to answer these questions.

The current situation and the trend

The booming economy in Berlin has led to considerable expansions of local companies in the past few years fuelling demand for office space.

Additionally, the Brexit referendum triggered relocations of british companies to Berlin and the companies that come to the German capital are getting bigger in size. According to the numbers by *Berlin-Partner* as published in an article by *Berlinboxx*, 20 small-sized british companies with an average of 15 employees established their businesses here in the first year after the Brexit vote. Since then, around ten companies are coming to Berlin each year, but their size is now around 35 employees on average.

The article also mentions that one large corporation with a four-digit employee number, whose name remains confidential, is considering a relocation of its headquarters from London to Berlin.

Moreover, large international companies are looking for office space in the German capital, especially US and Asian companies are now discovering Berlin as their preferred location in Europe.

And according to the *Genome Global Startup Ecosystem Report 2018*, around 20% of Berliner startups have relocated from other regions.

A new record high in office space take-up has been achieved each year since 2015. According to the latest Savills Office Market Report, the gross leasing activity totalled 421,600 m^2 in the first half of this year. 153,800 m^2 of the net absorption (184,855 m^2) were generated by expansions and relocations. This is 83.2%.[1]

Prospects for Berlin´s role as a national and international top office location are very positive.

Economic forecasts for the next two years suggest that the boom is set to continue. Berlin´s attractivity for international companies can only increase further amid the Brexit situation but also due to other factors that will promote Berlin´s popularity, e. g. the completion of the BER airport, which will advance its international connectivity.

Supply in office space in the capital, on the other hand, is extremely short. Vacancy across Berlin is now below 1.8 %[1]. Berlin CBD areas face vacancies below 1% and some sub-market´s are nearing zero mark (e. g. Berlin-Mitte, Europacity and Berlin-Kreuzberg)[3].

New-build activity level is growing, too. According to *bulwiengesa*, around 250,000 square metres should be added in the coming years (Berlin´s overall office space currently totals to 1.9 million square metres). However, given the pace of growing demand and the fact that only a small proportion of the space in development is speculative, it is far from being sufficient.[4]

[1] Savill: Berlin - the place to be. Büromarktbericht | 1. Halbjahr 2018 [2] Gründerszene.de (Infografic) [3] Tagesspiegel [4] bulwiengesa

Some of the projects in the development pipeline will not be completed by 2021 and a good share of build-office space in construction is usually pre-let before it is released to the market.

Additionally, nearly 80%[5] of new development is concentrated in the inner city area, where space for new constructions or re-development is limited and hence, the potential for office space in the city centre.

Where is it leading?

As it seems that the given and the potential office space reserves could only provide a short-term relief and the question arises where the expanding businesses should look for their office space, in particular those looking for large, contigous offices.

Many office market experts believe that alternatives outside the city centre will be taken into consideration more often. *Angermann,* for example, writes in their office search portal *bürosuche.de* that many major users will have to resort to locations that are adjacent to the centre as well as peripheral areas.

The Head of Agency at *Savills Germany*, Markus Monhart, as cites by *Immobilienmanager.de*, also believes that the rising cost in the top cities will move companies back to the two- or multi location approach by renting large offices outside the CBD.

A market study by *bulwiengesa* has observed a noticeable shift in demand towards less central locations, which are in turn developing a supply shortage, in particular for large, contiguous office spaces. This pressure is currently giving rise to new developments in more peripheral locations, e. g. around the BER airport.

But not only companies looking for large spaces will be attracted to outlying regions. According to the online startup magazine *Gründerszene.de*, startup companies are more and more prone to settling in city areas such as Marzahn, Spandau and Neukölln, where more space is available at much more affordable rent prices.

Developers seem to recognise opportunities that come with this trend. One example is *Project Immobilien,* who is planning an office complex in the airport region *Business Park Berlin* but also other locations far outside the centre, e. g. in Teltow (at *Techno Terrain*) and Kleinmachnow (at *Europarc Dreilinden*)*.

[5] bulwiengesa

*According to a press release by Project Immobilien

Concluding remarks

Based on the positive forecasts described above as well as the expert views in terms of office market development, it looks as with the sustained expansion of local businesses, new office locations could emerge beyond the S-Bahn ring.

Major companies looking for large office spaces and smaller enterprices seeking affordable rents will be pulled towards peripheral locations.

A crucial factor that will determine whether or not a certain area has the potential to become an office location is the transport infrastructure, in particular the public transport connectivity.

A good example of an extraordinary development of a remote city area is Berlin Adlershof, home to the Adlershof Science, Business and Media Hub in the eastern periphery of Berlin, where public transport infrastrusture was developed in accordance with its growth as scientific and urban area (see our newsletter about this distinctive location).

It remains to be hoped that more locations like this can emerge in future expanding Berlins office landscape and providing attractive locations also outside central regions. Until then, however, it will remain crucial for office tenants looking for new spaces in outlying areas to find a location that already provides the necessary infrastructure.

BATO Group´s investment activity is at the core of this market trend. Please do not hesitate to get in touch with us for investment advise or letting opportunities in peripheral areas with good public transport connections.

Please note that the contents of this newsletter have been researched and written according to the best of our knowledge; however they are in no way to be accepted as a legal advice or suggestion. Therefore we exclude any liability.

Sources

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