
Source: BATO Group

The Ongoing Success of the Berlin Office Market

While European commercial property investment has been declining for more than two years in the face of political and socio-economic uncertainties, Germany´s role as the safe haven for investors has been strengthened further. Berlin real estate, in particular, has seen a strong development and its office market is considered as exceptionally attractive. The capital´s positive economic development with ongoing prosperous forecasts, the growing employment and its pioneering role as media, technology and service location keep fuelling the local office market and, so far, theres is no end in sight for this development.

Germany is Leading the Way in Europe, Berlin in Germany

European real estate investment in 2016 was 21% below its record levels of 2015, and saw a decline of 16% year over year in the first quarter of 2017, according to the figures of Real Capital Analytics*. Investment volumes in UK fell even 43%. Germany, on the opposite, saw its performance levels go up by over 30% year over year. The best news is that the German real estate market is not just experiencing a good moment, but really has "stable future prospects", according to Jones Lang LaSalle*.

In its latest rating of the top 20 European office locations, the rating agency Scope designated Berlin as the city with the highest rent growth prospects in Europe, expecting a yearly growth of 4.4% between today and 2021. The German capital made the biggest leap forward compared to all other European cities and gained the A-rating (from previously B+) due to the developments such as the expansion of office jobs, the extremely low vacancy rate and the demand overhang dominating the market. Munich took the third slot, after Madrid, while Frankfurt was ranked seventh and London took the last place.

The Berlin Office Market Today

While the average office rent in almost all German Big-7 markets increased in the first quarter of this year, Berlin saw the the highest growth of 10% (next to Stuttgart), according to REFIRE*. The monthly average office rent in the German capital has reached the level of €17.10 per square metre, leaving Munich behind (€16.60 per square metre,+4%).

Premium rents in Berlin rose by 34% in the same period reaching €28.50 per square metre a month. The highest monthly top rents are still generated in Frankfurt wit €39, followed by Munich with €33.50 per square metre, but their groth potential seems to have reached its potential. Frankfurt´s premium rents grew by 3% while those of Munich fell by 3%, as reported by REFIRE*.

Berlin´s letting performance in the first half of this year exceeded its five-year average by almost 40% and the ten year average by nearly 45%, although it was below the strong half-years performance of the last year, according to Jones Lang LaSalle*. A growing space take-up is being generated by expansions of established companies.

* see our list of sources and references at the end of document

The results could have even been better if it wasn´t for the undersupply in the market. Larger office spaces of 2,000 square metres and more are highly sought after but extremely difficult to find find: experts suggest to start looking months or even years in advance. Projects in development are almost the only way to find larger office premises, which drives up pre-letting numbers for objects in construction, according to Angermann*. New-build projects are responsible for about two thirds of the overall take-up.

With over 20 million square metres of lettable office area Berlin now presents the largest office location in Germany, followed by Munich with its surrounding region. But despite it and the fact that Berlin has one of the highest level of new build activity across Germany, which is ca. 30% above its five year average, office space does and will remain scarce in foreseable future. The vacancy rate in the German capital has reached a new historical low with 2.5%, as Angermann figures reveal*.

The all-time popular office location Berlin-Mitte remains number one in terms of office take-up, followed by Friedrichshain/Mediaspree and Treptow/Adlershof - these locations are also in the main focus of new build activity. However, city outskirts are gaining a growing importance.

Berlin Commercial/Office Investment

With the insatiable demand for office space in the German capital, it is rather unsurprising that the city is currently on the top when it comes to commercial investment activity. The investment in office real estate was accountable for more than two thirds of total commercial investment in Berlin in the first half of 2017 (the reported numbers vary between 60%-72%).

Berlin surpassed Munich in terms of commercial transaction volumes (ca. €3 billion vs €2.5 billion) in the second quarter of this year, gaining back its pole position where it was in 2015 (with the result of ca. €8 billion in transaction volume vs ca. €6 billion in Munich). According to forecasts, a total commercial investment of 7 billion Euros is achievable for Berlin by the end of this year.

Foreign investors were particularly active in the commercial investment market with a share of almost 57%, according to the BNPPRE*. Largest buyer groups were the Asset and Fund Manager, which are also the top seller group, followed by Special Funds, Pension and Equity/Real Estate Funds - altogether accountable for two thirds of the overall transaction volume.

BATO Group´s view and experience

In conclusion, it can be said that, for the past few years, there have been only good news for the Berlin office market. The exceptionally beneficial socio-economic factors and the positive forecasts keep drawing investor´s attention.

This confirms and strengthens BATO Group´s main focus on the Berlin office market for nearly a decade.

In case of interest investing in office buildings or projects in Germany, please do not hesitate to contact our team of investment specialists.

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.

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* see our list of sources and references at the end of document