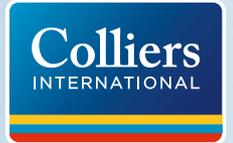


MARKET REPORT

Berlin  
Mid-year 2017



Accelerating success.

# Office Leasing and Investment





Büro Colliers International Berlin GmbH

Berlin	
STATISTICS	
Population (12/2016)	3,670,000
Unemployment Rate (12/2016)	8.8 %
Employees Paying Social Security Contributions in 1,000 (2016)	1,397
Purchasing Power Index (2016)	102.0 %
Trade Tax Multiplier	410 %
Per Capita Disposable Income (2016)	€ 20,802

Sources: Statistisches Bundesamt, Statistische Landesämter, Bundesagentur für Arbeit, infas geodaten

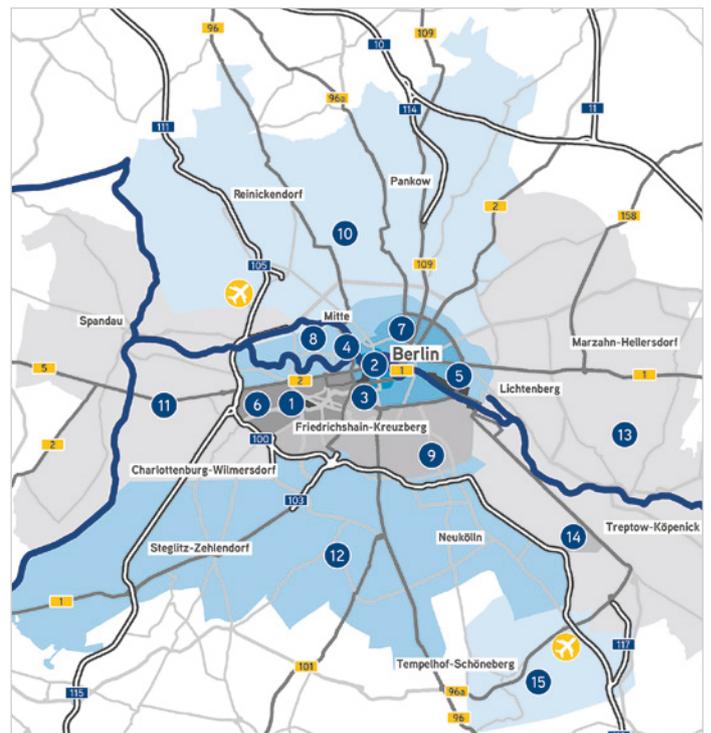
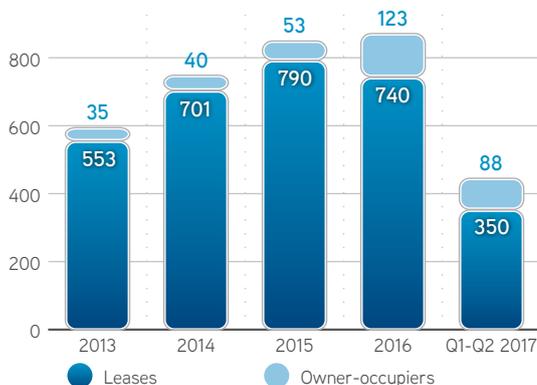
Fast Facts	
OFFICE LEASING (INCLUSIVE OWNER-OCCUPIERS)	
Office Space Take-up	437,000 sqm
Leasing Take-up	349,900 sqm
Prime Rent	29.20 €/sqm
Average rent	17.00 €/sqm
Vacancy rate	2.7 %
Office Space Stock	19.0 billion sqm

## Office Leasing

### Berlin office leasing market headed for record results.

Based on current activity on the Berlin office leasing market, we can expect a new record year in 2017. Despite limited supply, new leases were signed for 437,000 sqm of office space in Q1-Q2, up 26% yoy. This result puts Berlin ahead of the rest of Germany's office markets. The largest transaction by far in Q2 was recorded in the dynamic Mediaspree submarket with Zalando taking up an additional 42,500 sqm of office space at the former Galeria Kaufhof. A number of large-scale leases signed for more than 5,000 sqm have spurred the excellent take-up results this year to date.

### Take-up of Space in 1,000 sqm



## Take-up of Space

Based on the number of new leases signed, the smallest space segment of up to 500 sqm remained a stable basis for the Berlin office market with over 190 new leases signed for around 53,800 sqm. The space segment of over 5,000 sqm, however, benefited most from the above-average activity on the Berlin market, accounting for more than 40% of total take-up, or 184,200 sqm. The mid-range space segment of between 2,000 and 5,000 sqm also heavily influenced market activity in Q1-Q2 with leases signed for almost 93,000 sqm of new office space.

Prime locations in the City East and Downtown East submarkets continue to be investor favorites with take-up recorded there at 51,100 sqm and 56,200 sqm, respectively. Mediaspree office locations also continue to be in high demand with 43,400 sqm newly brokered, a result that can primarily be attributed to Zalando's leasing activity. Ongoing scarcity of space in downtown locations is moving tenants to increasingly look to neighboring sites. Around 20% of take-up (88,600 sqm) was generated in the City Periphery South submarket with the City Periphery North submarket accounting for around 15% (64,300 sqm).

## Supply and Vacancy

Record demand combined with moderate new-build activity has led to an ongoing drop in vacancy. The amount of space currently available for immediate tenancy has fallen to a critical 2.7%. The term vacancy rate has basically been obsolete for months now, as we are facing full occupancy and the level of speculative new-build activity in no way meets demand for space.

Around 170,000 sqm of office space is scheduled for completion by the end of the year, roughly 75% of which has already been pre-leased. Slightly more new space is scheduled to become

available in 2018 (approx. 255,000 sqm), around 60% of which has already been taken up. New-build completions in 2019 are currently expected to amount to around 360,000 sqm.

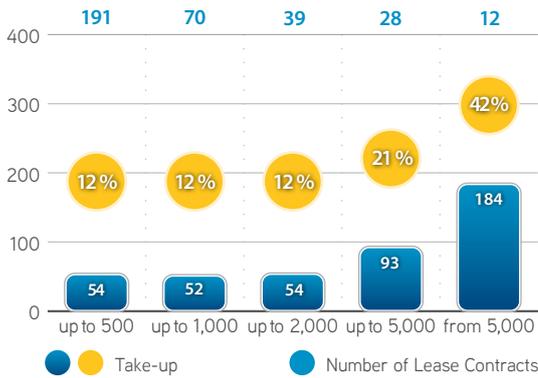
## Demand

The industry mix in Q1-Q2 2017 was heavily characterized by the public sector as well as associations and social institutions, reflecting Berlin's role as Germany's capital city and seat of government. 25 new leases for 87,600 sqm have been signed by institutions in these sectors this year to date. Businesses from the retail and gastronomy sector followed in the ranks with 20 leases signed for 87,100 sqm. Not surprisingly, information and telecommunications companies led the pack in terms number of leases signed, accounting for more than 50 new leases signed for 66,800 sqm of office space in Q1-Q2. Consulting firms came in a close second with just under 50 leases signed.

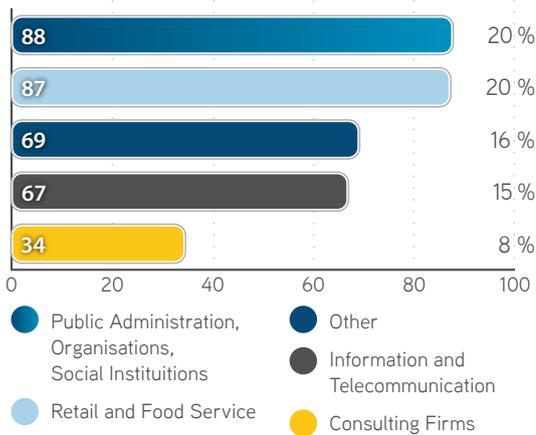
Berlin remains Germany's start-up hot spot. No other location in Germany offers up-and-coming new businesses a more favorable environment to realize their business ideas. Berlin is particularly popular among start-ups from the creative industries and the technology sector. Start-up conditions are relatively affordable with office, location and housing costs considerably lower than in other major German cities. Berlin attracts young, highly qualified people from all around the world, and Berlin start-ups have the highest share of foreign employees in Germany at roughly 35%. Young entrepreneurs choose Berlin for their start-ups thanks to its high quality of life, relatively low cost of living, the city's vibrant scene and an international environment. According to several German and international studies, Berlin is one of the globally leading start-up locations with the best growth potential worldwide. The start-up scene not only continues to hold significance as a source of employment in Berlin, it has also been growing as a key driver on the Berlin office leasing market.

Market overview							
LOCATION	OFFICE SPACE TAKE UP in sqm (incl. owner-occupiers)	LEASE TAKE-UP in sqm (excl. owner-occupiers)	SUSTAINABLE RENTS in €/sqm/month	AVERAGE RENT in €/sqm/month	NUMBER OF LEASE CONTRACTS	VACANCY in sqm	
1 CBD West	22,000	22,000	12.00 – 36.20	20.80	29	24,300	
2 CBD East	51,100	36,100	10.00 – 37.00	19.40	59	29,200	
3 CBD Potsdamer Platz/ Leipziger Platz	15,100	9,400	16.00 – 30.40	22.50	13	39,200	
4 Hauptbahnhof	8,300	8,300	19.00 – 23.20	20.80	7	16,500	
5 Mediaspree	43,400	43,400	12.00 – 24.00	22.00	4	5,900	
6 City West	15,700	15,700	9.30 – 19.00	15.00	29	35,700	
7 City East	56,200	41,500	8.00 – 27.50	18.80	61	23,400	
8 City Periphery North	64,300	63,200	6.50 – 22.00	14.30	32	20,100	
9 City Periphery South	88,600	41,400	8.50 – 22.00	18.20	22	11,500	
10 Periphery North	17,100	17,100	6.00 – 15.30	10.00	17	31,900	
11 Periphery West	12,800	12,800	7.00 – 26.00	12.20	9	76,100	
12 Periphery South	26,500	26,500	6.50 – 14.50	11.60	27	61,900	
13 Periphery East	12,300	8,900	7.20 – 14.00	10.20	15	98,500	
14 Adlershof	3,200	3,200	10.50 – 19.80	17.50	5	15,500	
15 Schönefeld	400	400	12.00 – 12.00	12.00	2	23,300	
<b>Total</b>	<b>437,000</b>	<b>349,900</b>	<b>5.10 – 37.00</b>	<b>17.00</b>	<b>331</b>	<b>513,000</b>	

### Take-up of Space by Size (in 1,000 sqm and %) and Number of Lease Contracts incl. Owner-occupiers

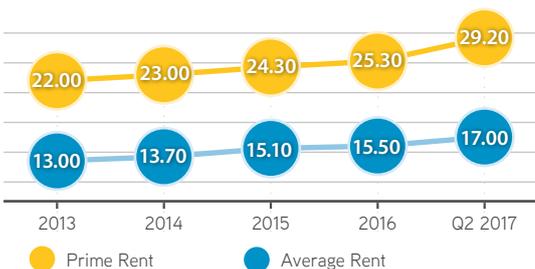


### Take-up by Industries – Top Five (in sqm) and share of Total Take-up (in %)



Update: 30-06-2017

### Prime and Average Rents (in €/sqm)



### Rents

Rents have been soaring over the last 12 months due to ongoing high demand for space. Prime rent increased by more than 15% to a current €29.20 per sqm compared to €25.30 (Q1-Q2 2016). That puts Berlin in third place behind Munich and Hamburg in the ranking of the most expensive locations in Germany. This development can be attributed to a number of high-volume transactions in prime locations in City East as well as at Potsdamer Platz. Around 40 new leases were signed in the price segment of over €20.00 per sqm. This trend is a clear indication that office tenants are increasingly willing to lease attractive space in the upscale segment.

Average rent also increased by just shy of 10% yoy to €17.00 per sqm. More than 40 leases reflecting an office take-up of around 28,300 sqm were signed in the lowest price segment of up to €10.00 per sqm. The price segment of between €10.00 and €12.50 per sqm also saw more than 40 new leases signed for a total of 22,000 sqm. The fact that the two lowest price segments recorded the smallest share in take-up is another sign that rents are soaring. The higher-priced segments of between €12.50 and €15.00 per sqm (47,700 sqm), €15.00 and €17.50 per sqm (50,800 sqm) and €17.50 and €20.00 per sqm (42,100 sqm) recorded around 60 new leases each.

### IMMAX Property Index

The IMMAX property index indicates the supply and demand trend on the office market. It reflects the relationship between supply at a specific point in time and take-up of office space over the previous 12 months. Supply figures include current vacancies (space available within 3 months) and potential space that will become available within 12 months thanks to new developments and newly vacant stock space. Lease take-up from the previous 12 months is included in take-up calculation. The calculation does not include office space taken up by owner-occupiers.

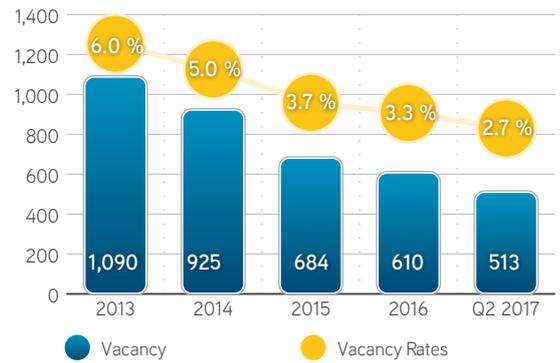
$$\text{IMMAX 7/2017} = \frac{1,003,600 \text{ sqm}}{772,000 \text{ sqm}} = 1.3$$

Due to ongoing vacancy absorption, moderate speculative new-build activity and high take-up, the property index dropped considerably in Q1-Q2 2017. Although the index was still recorded at 2.0 at the end of 2016, space currently available only comes to 1.7x take-up volume, a historical low reflecting the favorable trend on the Berlin office leasing market. We expect demand for office space in Germany's capital to remain high and the property index to remain low in 2017.

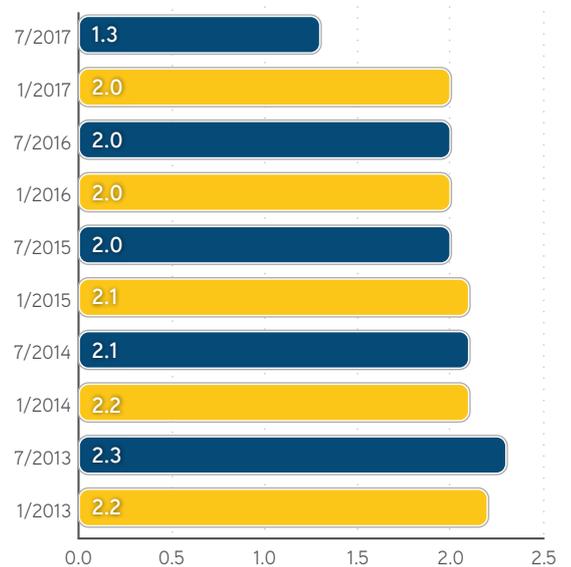
## Summary and Outlook

In light of the above-average start to the year and Berlin's increasing popularity, we expect record results for 2017. An increasing number of office tenants are currently willing to accept higher rents than they were in 2016. In view of ongoing economic growth and a full pipeline with a number of large-scale leases, we can reasonably expect take-up in 2017 to hit the 900,000-sqm mark for the first time.

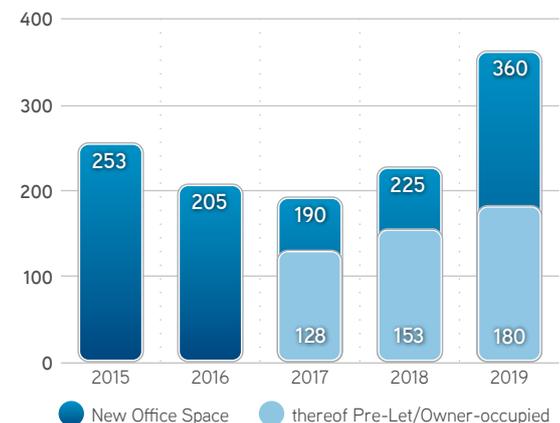
## Vacancy (in 1,000 sqm) and Vacancy Rates (in %)



## IMMAX Property Index



## Completion Volume (in 1,000 sqm) and thereof Pre-Let/Owner-Occupied





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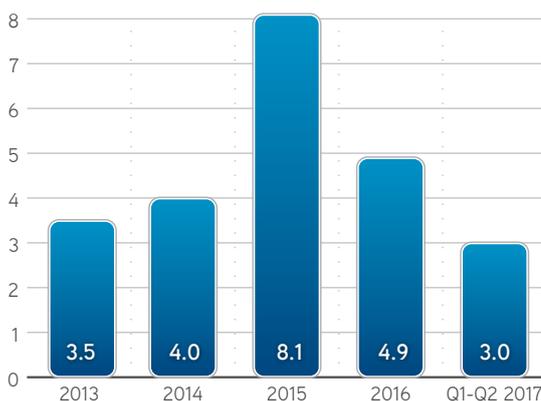


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Fast Facts	
INVESTMENT	
Transaction Volume	€ 3.017 billion
Largest Buyer Group: Asset/Fund Manager	43.0 %
Largest Seller Group: Property Developers	34.0 %
Most requested Type of Property: Office	60.0 %
Prime Yield Office	3.25 %

## Commercial Transaction Volume (in billion €)



# Investment

## Activity on Berlin investment market remains lively in 2017.

### Transaction Volume

Assets changed hands for a total of €3.0bn on the Berlin commercial investment market in the first half of 2017. Berlin expanded its lead in a German-wide comparison with Munich (€2.2bn) and Frankfurt (€2.1bn) coming in second and third. Activity on the market remained lively with around 70 deals signed. Total transaction volume also topped last year's results (€2.1bn) by 47%. A healthy investment mix of stock properties and high-volume property developments boosted Q1-Q2 2017's excellent result.

### Buyer and Seller Groups

Asset/fund managers dominated the market buy side with €1.2bn, reflecting a market share of 43%. Open-ended funds and special funds (€440m, 15%), insurance companies (€259m, 9%) and listed property companies (€258m, 9%) followed almost neck-and-neck. Asset/fund managers were active sell side as well with a market share of 21%, or €645m in transaction volume, claiming second place. Property developers/development companies came in first at 34%, disposing of attractive assets for €1.0bn. Banks and opportunity/private equity funds sold real estate valued at €295m (10%) and €274m (9%), respectively, taking advantage of the favorable market conditions.

Foreign investors expanded their high market share in the German capital in Q1-Q2 2017, accounting for 60% buy side and 50% sell side.

### Investment Assets

Office assets continue to dominate the Berlin investment market. Investors increasingly focused on pre-leased properties due to ongoing limited supply with speculative projects also in high demand. Office stock, refurbishments and new-build projects accounted for €1.8bn combined, or 60% of transaction volume. Thanks to a strong Q1, retail assets (€480m, 16%) and hotels (€316m, 10%) remained in second and third place, respectively. The other asset classes account for the remaining 16%.

The highest-volume transactions this year to date include the purchase of Zalando headquarters by South Korean asset manager Capstone, RFR Holding's acquisition of East Side Mall and Allianz Real Estate GmbH's refurbishment and structural additions to "Eight Floors", each changing hands for just shy of €200m.

German and international portfolio deals accounted for a minimal share in transaction volume with single deals dominating the market at almost 90%.

## Investment Highlights

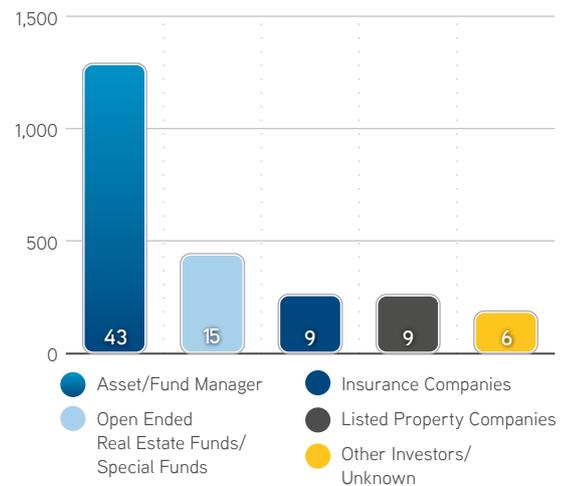
A large number of investors are still looking to core assets in prime central locations in Berlin as well as investment alternatives in peripheral submarkets. Gross initial yield compression continues as a result of the ongoing investment boom. With prime yields only down 5 BPS to 3.25%, yields for other assets are exhibiting higher margins and more volatility, particularly those promising considerable upside potential due to underrenting or vacancies. Numerous deals were signed at top prices considerably exceeding vendor expectations as a result. This trend can be seen in other asset classes as well and is set to continue throughout the remainder of 2017.

## Summary and Outlook

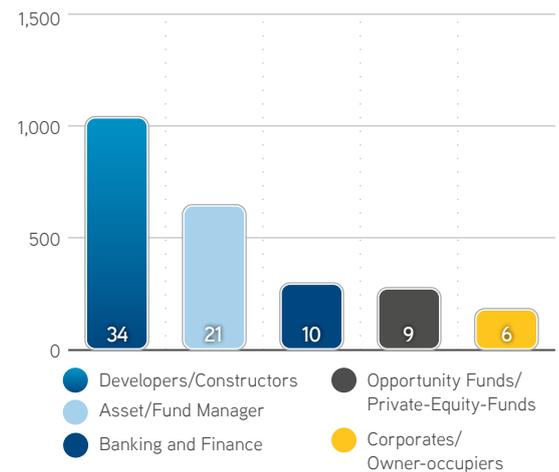
Due to ongoing high demand, continued economic growth, a favorable employment rate and in light of Berlin's strong Q1-Q2 results, we expect 2017 to pull in an excellent annual result, although the chances of breaking the record set in 2015 are low based on current data.

Persistently low interest rates continue to drive demand for high-volume investments on the Berlin market, which is considered a safe haven by investors. With several larger transactions in the pipeline, including the double deal of Springer headquarters and Springer Passage, total transaction volume for 2017 on a very lively market could reach the €7bn mark.

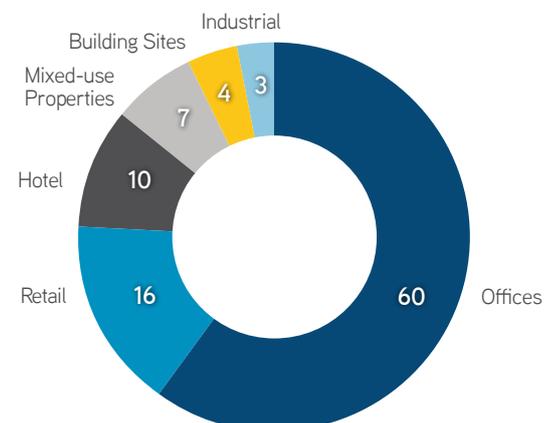
**Transaction Volume by Top-Buyers Group (Millions of €, Share (in %))**



**Transaction Volume by Top-Sellers Group (Millions of €, Share (in %))**



**Types of Properties (in %)**



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# 403 Offices in 68 countries on 6 continents

United States: 153  
Canada: 29  
Latin America: 24  
Asia Pacific: 86  
EMEA: 111

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€ 2.3

billion  
in annual revenue

€ 95

billion  
in transaction volume with more than  
72,000 investment- and leasing-deals

170

Million square meter under management

15,000

Professionals worldwide

## About Colliers International

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