

Q3
2024

AVISON YOUNG
REAL ESTATE
MARKET REPORT

AVISON
YOUNG



AVISON YOUNG

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ECONOMIC CONDITIONS

The (geo)political tensions have increased again over the past three months. These resulting uncertainties—along with other structural challenges—are leading to continued investment restraint by companies. In Germany, the economic recovery has come to a standstill, with some areas of the economy even slipping back into contraction. Several institutes have once again lowered their GDP forecasts, expecting either stagnation or a slight decline for the current year, with a slight positive growth projected for 2025 at best.

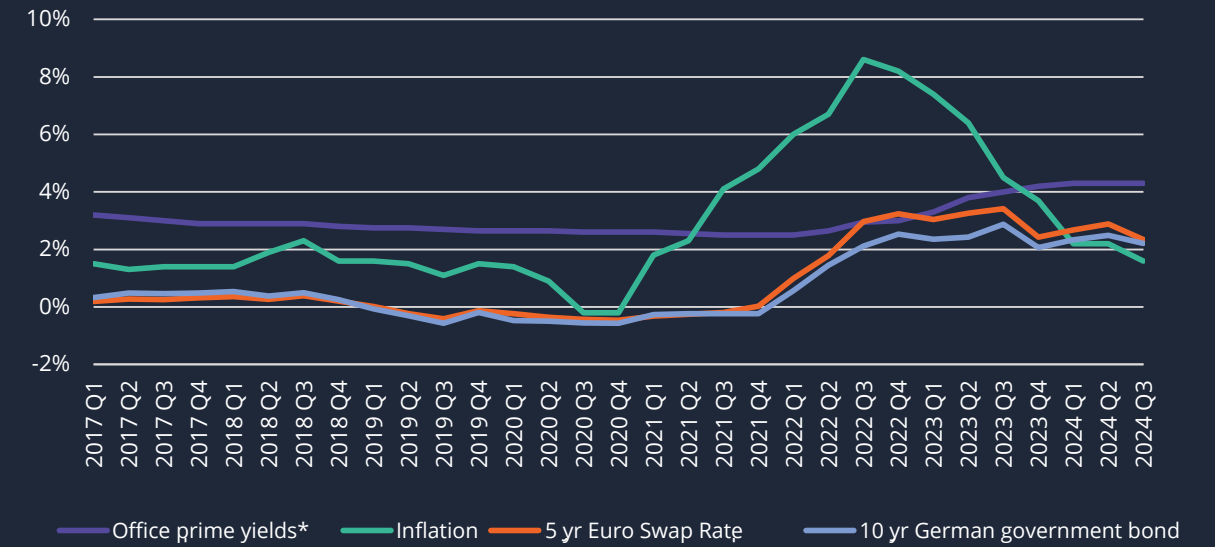
Due to easing inflationary pressures, the European Central Bank lowered interest rates again in mid-September, with the deposit rate now at 3.50% and the main refinancing rate at 3.65%. Inflation fell to 1.6% in Germany and 1.7% in the Eurozone in September, dropping below the ECB's target level of 2% for the first time since 2021. Inflation is expected to stabilize around the 2% mark for both 2024 and the upcoming year. Another rate cut by the ECB is anticipated in the final three months of this year.

If the European economy develops according to consensus forecasts, the main refinancing rate could drop by about 100 basis points below the current level by the end of 2025. The yield on 10-year German government bonds has stabilized at around 2.2% in recent weeks, and forecasts suggest it will remain at this level until the end of 2025.

The unemployment rate increased only slightly to 6.0% in September, and the number of employed people, at approximately 45.9 million, has hardly changed. Despite reduced hiring willingness among companies, the ifo Institute expects a slight increase in employment figures in the coming years.

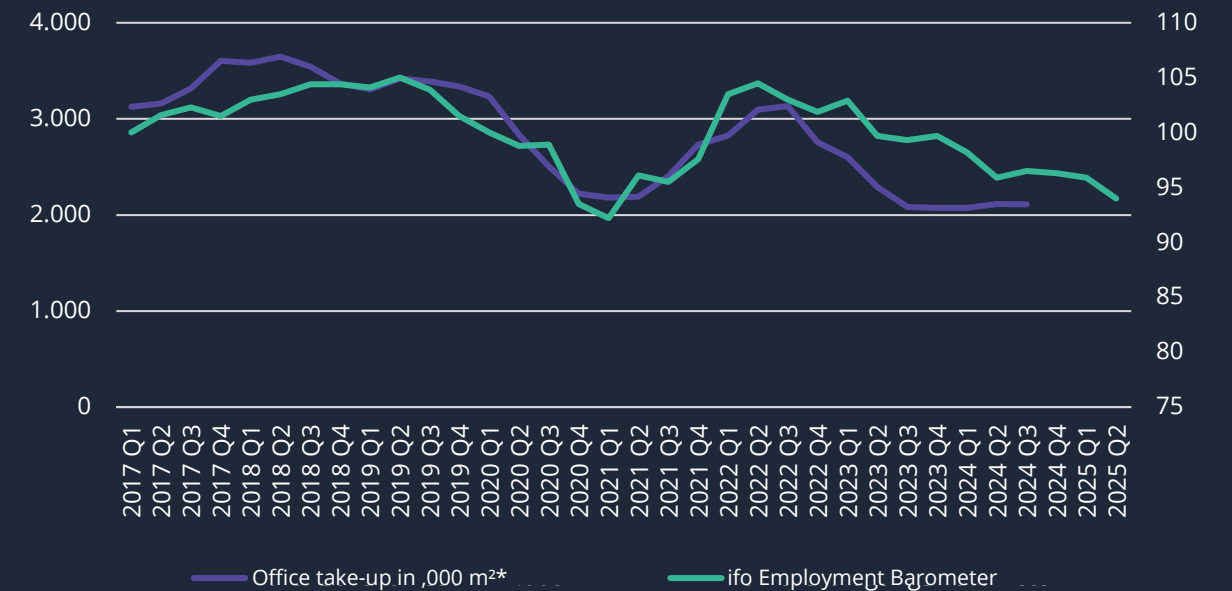


PROPERTY YIELD, INFLATION, SWAP RATE, GOVERNMENT BOND



*Net initial yield
Source: Avison Young, Federal Bank of Germany, Macrobond; Status: September/

OFFICE TAKE-UP VERSUS IFO EMPLOYMENT BAROMETER



* Top 5 cities, 12 month rolling; **Index; base year 2015; 3 quarters advanced
Source: Avison Young; ifo Institute. Status: September/October 2024

INVESTMENT MARKET

The mid-September rate cuts by the central bank had, as expected, little immediate effect on the real estate investment market or distressed credit engagements. However, the positive signal from the direction of interest rates should not be underestimated, and further rate cuts are expected in the coming months. The third quarter saw a slight uptick in market activity, although mostly for deal sizes under €100 million or even under €50 million. Large-scale deals, which typically have a strong impact on overall results, remain rare. With a total commercial transaction volume of €15.9 billion, the first three quarters were 5% above the previous year's period but 56% below the five-year average for 2019–2023, and 59% below the pre-COVID five-year average for 2015–2019.

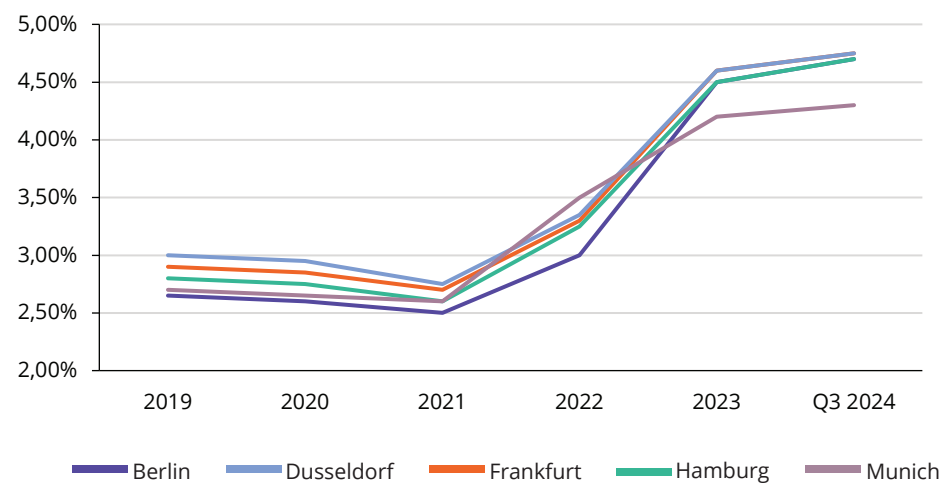
As in the previous year, office properties accounted for around 23% of the total commercial real estate investment volume, though the five-year average is 41%, reflecting continued investor caution in this asset class. In the office segment, a wave of necessary investments is building up: many properties will require modernization or renovation to remain competitive, especially when larger leases expire. For comprehensive renovations, external financing is generally only available with a minimum pre-leasing quota and a clear path to achieving ESG compliance. For equity-rich investors and alternative capital providers, investment opportunities are plentiful.

However, scrutiny is higher, even among risk-tolerant players, and deals are often abandoned during due diligence. In addition to falling interest rates, sustainable recovery trends in the broader economy would further stimulate investment activities.

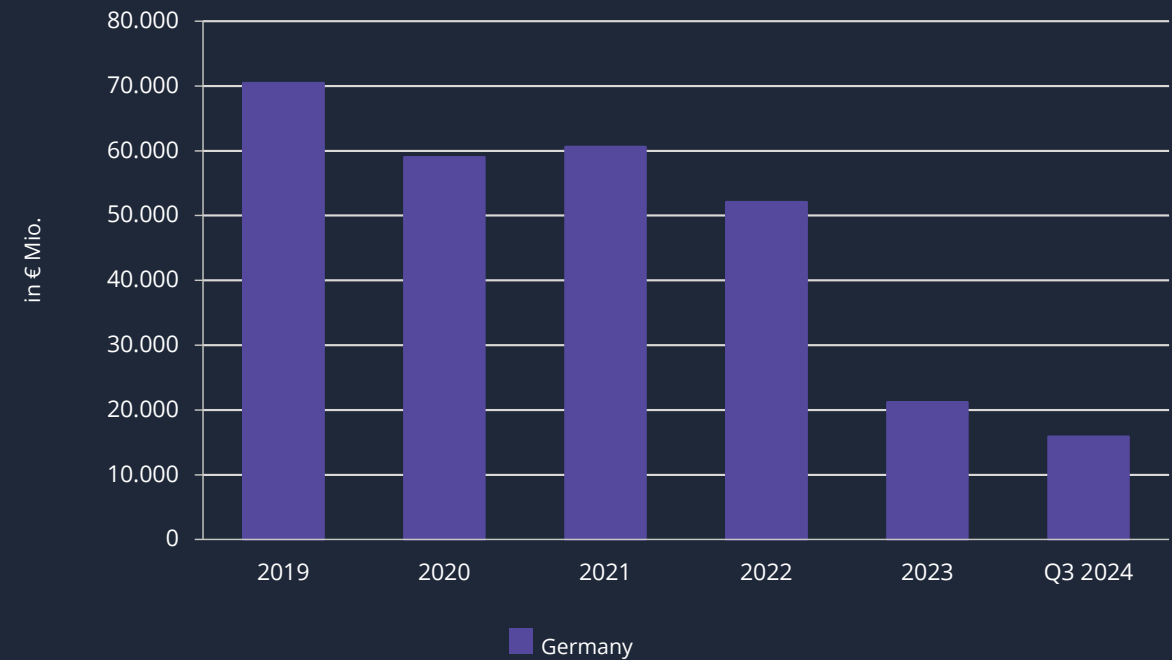
The reasons for the still-low market dynamism are varied. Stricter regulations continue to pressure banks, leading them to act more conservatively in new business. It's not just the high interest rates or the direct costs of financing that make real estate investments challenging, but also the broader context. Ongoing uncertainty in areas like (geo)politics and user demand continues to dampen activity. Additionally, the duration and complexity of transactions remain long and high, respectively.

Many investors have shifted to a holding strategy, focusing primarily on managing or streamlining their existing portfolios. Investments will only resume once sufficient capital has been freed up. However, sales often fail due to still overly high price expectations, though price discovery is improving. Additionally, market participants are beginning to adapt to the changed conditions. Prime office yields in major real estate hubs remained unchanged in the third quarter.

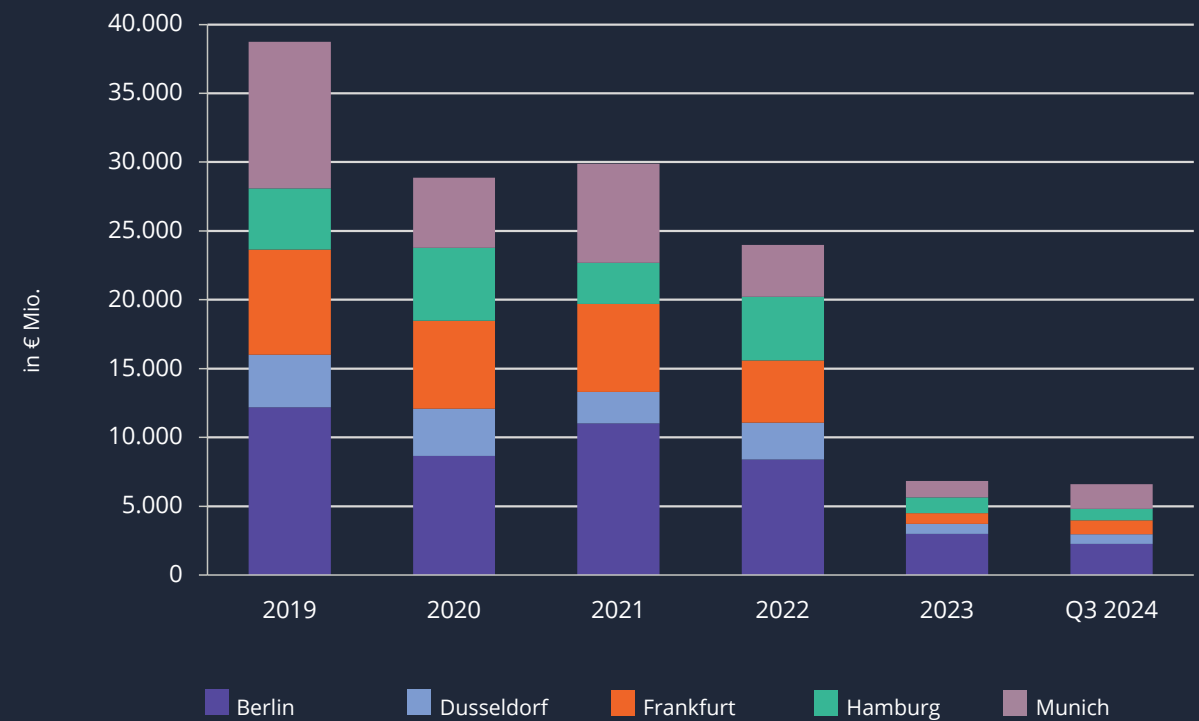
OFFICE PRIME YIELD



COMMERCIAL REAL ESTATE INVESTMENT VOLUME GERMANY



COMMERCIAL REAL ESTATE INVESTMENT VOLUME TOP 5 CITIES



OFFICE MARKETS

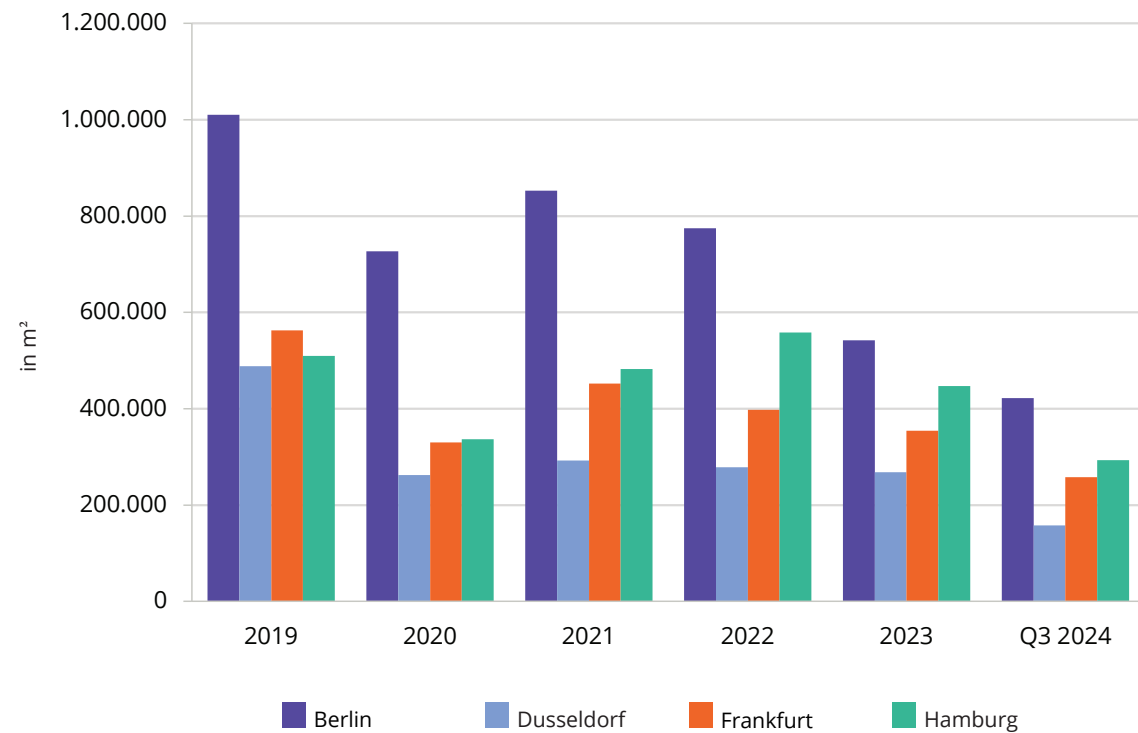
All the office rental markets examined here - Berlin, Hamburg, Dusseldorf, and Frankfurt - experienced a decline in take-up compared to the same period last year. This is partly due to the continued downsizing of space by many office users. At the same time, the trend of relocating to higher-quality locations and properties through new leases is leading to stable or rising rents but increasing vacancies in buildings that don't meet user demands. Overall, take-up in the four markets decreased from 1.22 million m² to 1.13 million m² by the end of the third quarter, a decline of around 8%. Volumes are expected to pick up slightly from next year.

Vacancies have grown by about 4% to 4.35 million m². In Dusseldorf and Frankfurt, vacancy rates have reached double digits. The overall vacancy trend remains upward, with a shortage of top-quality space in some areas. The construction pipeline has thinned considerably, with new projects rarely breaking ground. Completions in the third quarter added only minimally to vacancy, as few speculative spaces came to market. The same is expected for Q4. From 2025, only limited new space is expected in most

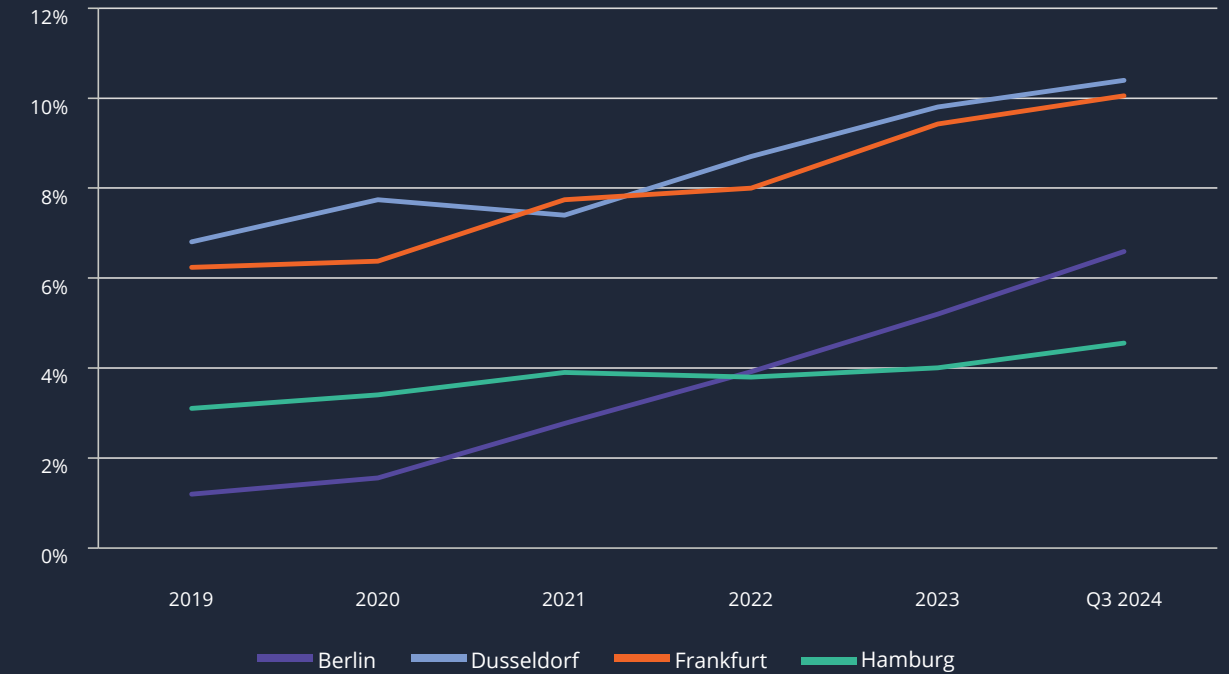
markets, except in Berlin, where larger volumes could push up vacancy.

Despite a weakened but still ongoing employment growth forecast, including for office workers, demand for office space remains steady. Increased employee presence in offices reaffirms the importance of these spaces as places for personal interaction and social exchange. This should make office properties more attractive to investors in the medium term. For properties with persistent vacancy issues and low cash flow, repurposing could be a viable option.

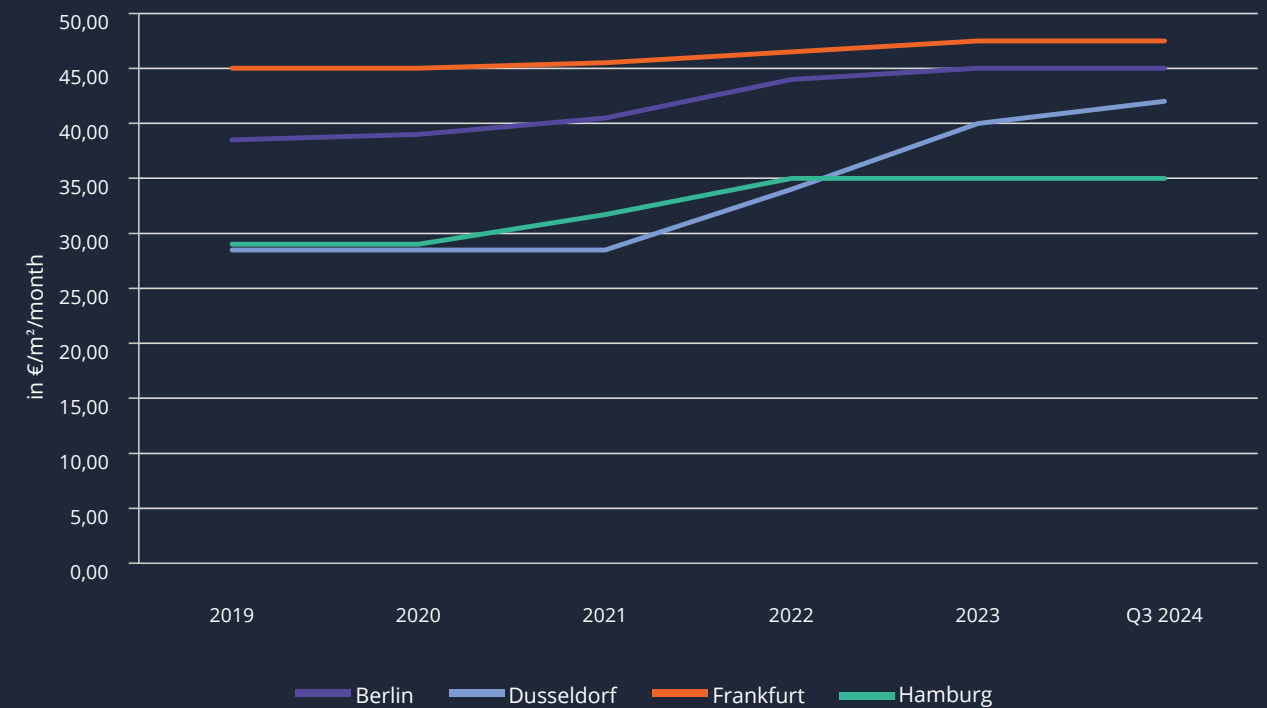
TAKE-UP: BERLIN, DUSSELDORF, FRANKFURT, HAMBURG



OFFICE VACANCY RATE



OFFICE PRIME RENTS



OFFICE MARKET BERLIN



After the first three quarters of the year, the office space turnover in Berlin totals 422,200m², a decline of around 25% compared to the five-year average and 6% compared to the previous year. However, the market is gaining momentum: tenants are gradually becoming more decisive, especially in the case of new inquiries from companies looking to relocate. This trend is particularly noticeable in the small and medium-sized segments, so it is not yet reflected in the overall turnover. Decision-making processes for large deals remain lengthy. Nonetheless, a take-up volume of around 550,000 m² seems achievable by the end of the year.

For many office tenants, contract extensions remain the preferred choice. Tenants are also increasingly focused on high-quality spaces, often paired with a reduction in office space. There are even cases of tenants reducing space while simultaneously increasing the number of office employees. Tenants in central locations often reduce their space by one-third to half, whether for new leases or extensions. Many prefer to avoid long-term commitments, opting instead for short-term leases—sometimes for only two to three years. To avoid vacancies, some landlords are becoming more flexible with minimum lease terms. Nevertheless, overall vacancy has increased over the course of the quarter. In addition to the weak take-up, this is primarily due to vacated spaces.

Rents in the submarkets, including prime rents, have remained stable, with prime rents expected to hold steady until the end of the year.



	Q3 2024	compared to previous year	Outlook*
Take-up (accumulated) (m ²)	410,700	- 6 %	↑
Prime rent (€/m ² /month)	45.00	+ 1.00 €	→
Average rent (€/m ² /month)	27.80	- 1.00 €	
Vacancy rate (%)	6.6 %	+ 190 bp	↑

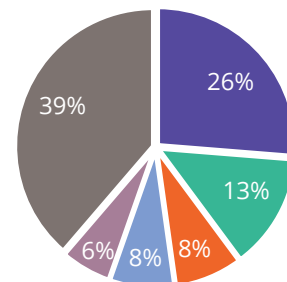
* in each case by end of year, except take-up: compared with previous year

TOP 5 DEALS Q1-3

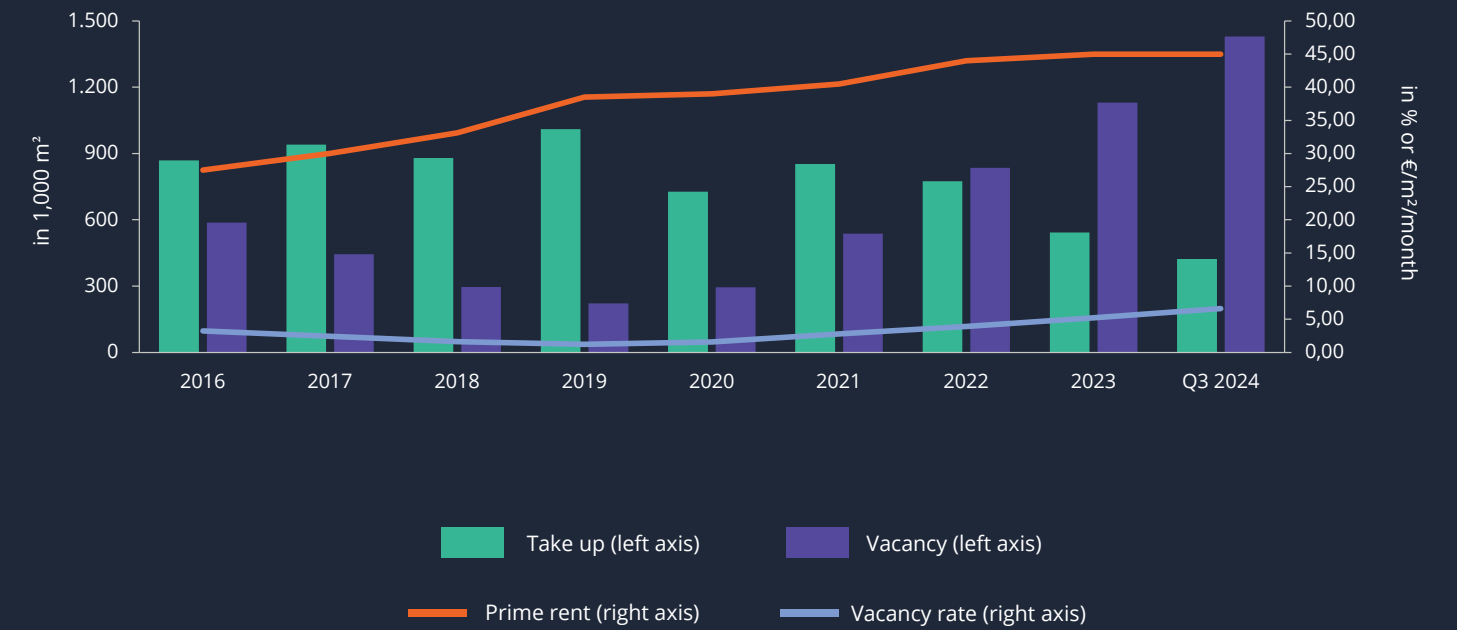
BlmA – Federal Ministry „X8“ – Markgrafenstraße 19a, Friedrichshain-Kreuzberg	25,000 m ²
BlmA – Federal Chancellery Mitte	25,000 m ²
BlmA Eisenstraße 87-96 Neukölln/Alt-Treptow	19,000 m ²
Siemens AG Nonnendammallee, Charlottenburg-North/Siemensstadt	18,000 m ²
BIM for Berlin State Institute „WESTEND Office“ – Fürstenbrunner Weg 22-30 Charlottenburg/Wilmersdorf	17,000 m ²

TAKE-UP BY TOP 5 SECTOR

- Public Authority
- ITT
- Manufacturing
- Building Sector
- Health / Pharma
- Other

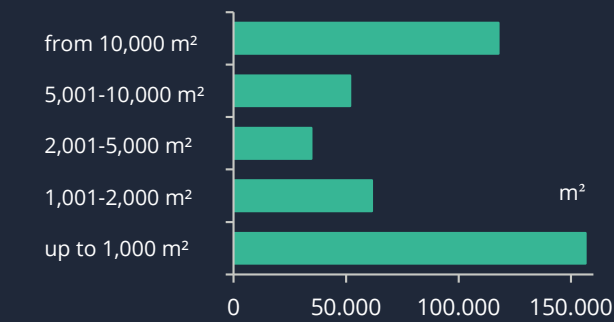


TAKE-UP, VACANCY AND PRIME RENT

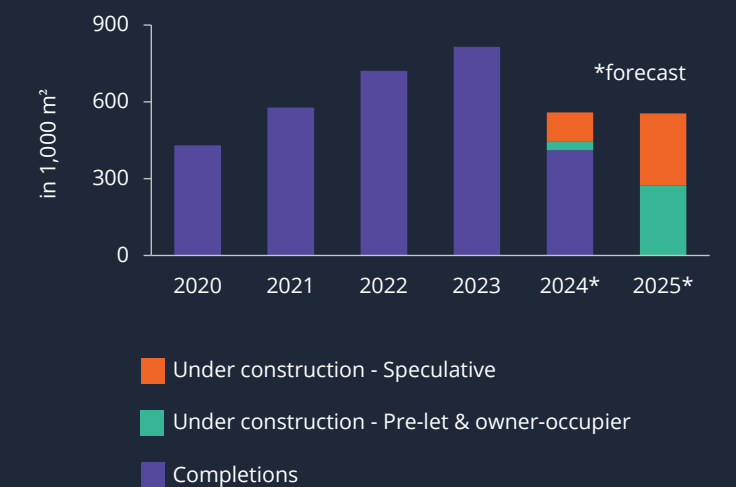


TAKE-UP BY SIZE CATEGORY

TAKE-UP BY SIZE CATEGORY

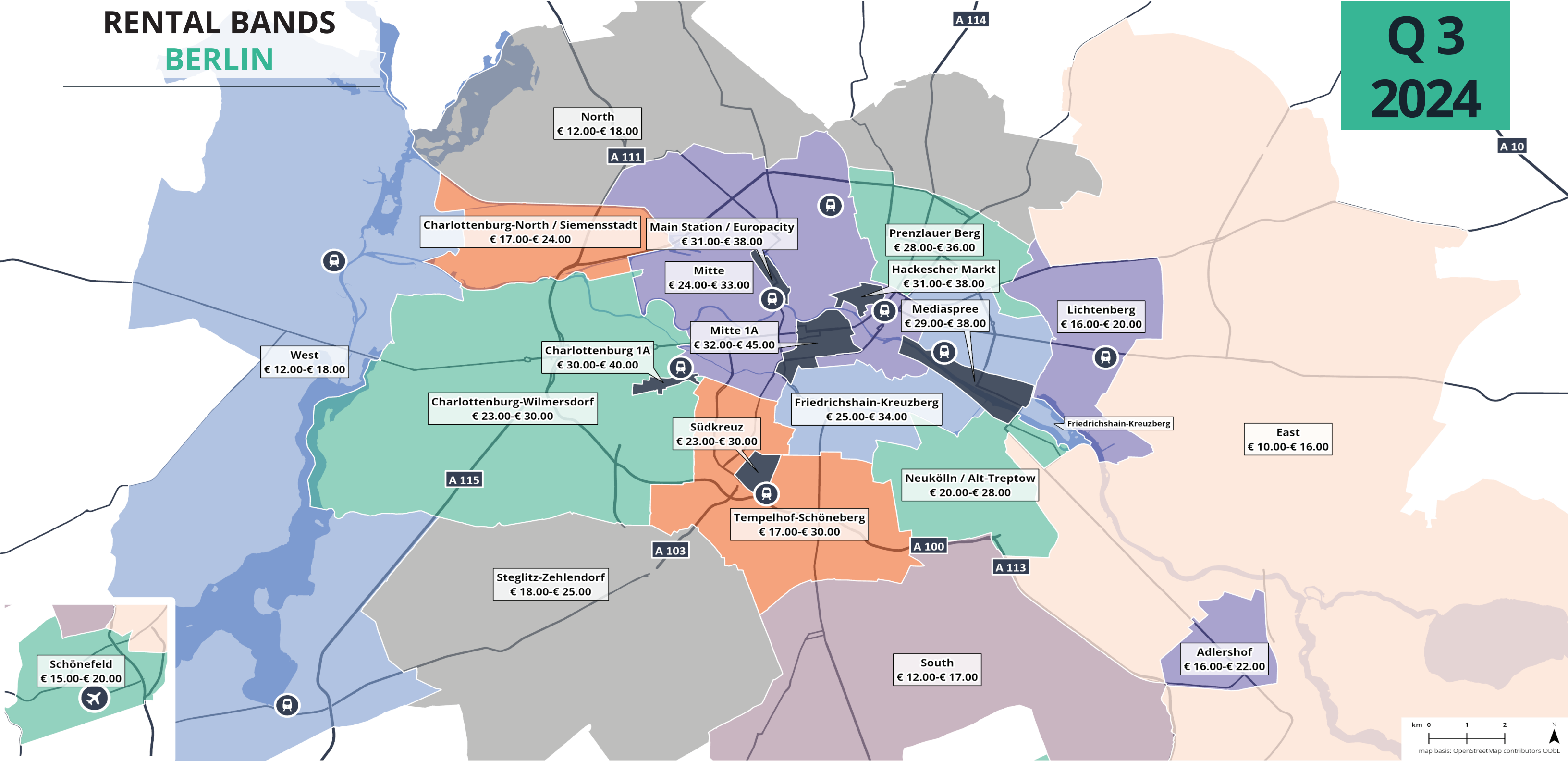


COMPLETIONS



RENTAL BANDS BERLIN

Q3
2024



OFFICE MARKET DUSSELDORF

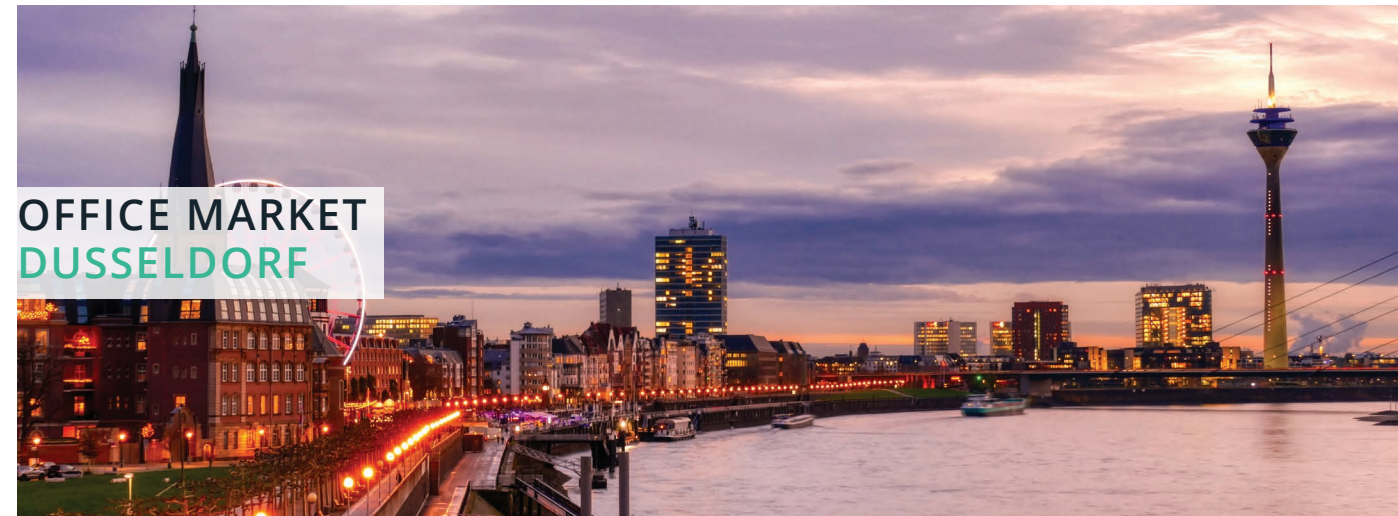
A primary reason for the very low office space turnover of 157,800 m² by the end of September is the lack of large deals. After only two deals exceeding 5,000 m² by mid-year, all transactions in the third quarter were below that threshold. The market as a whole is characterized by a reluctance to close deals, with the volume more than one-third below the five-year average. By the end of the year, turnover is expected to exceed 200,000 m², though it is difficult to predict by how much.

Despite the currently weak market phase, there are active large-scale inquiries. Whether these will result in new leases or end in extensions remains uncertain, but it will significantly impact the turnover figures, as extensions are not counted. Many tenants—across all size segments - are trying to avoid the effort associated with relocation, so lease extensions remain a focus.

While only a small volume of available space has been completed so far this year, and little is expected to come to market in the fourth quarter, around 72,000 m² is expected to be available next year, particularly in central locations. This is not expected to significantly impact prime rents, as high-quality spaces in top locations remain in demand.

Vacancies are high not only in peripheral or outdated areas but also in the high-quality segment in central locations. Peripheral locations are likely to face the most vacancy pressure in the future. Landlord incentives are accordingly high, depending on the situation. Prime rent has remained unchanged at €42.00/m²/month since the first quarter, while average rents have slightly declined.





OFFICE MARKET DUSSELDORF

	Q3 2024	compared to previous year	Outlook*
Take-up (accumulated) (m ²)	157,800	- 11 %	↓
Prime rent (€/m ² /month)	42.00	+ 3.00 €	↑
Average rent (€/m ² /month)	20.40	+/- 0 €	
Vacancy rate (%)	10.4 %	+ 80 bp	↑

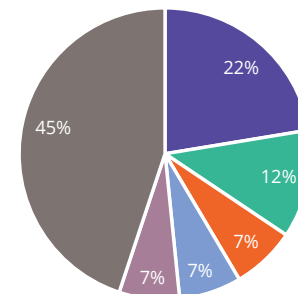
* in each case by end of year, except take-up: compared with previous year

TOP DEALS Q1-3

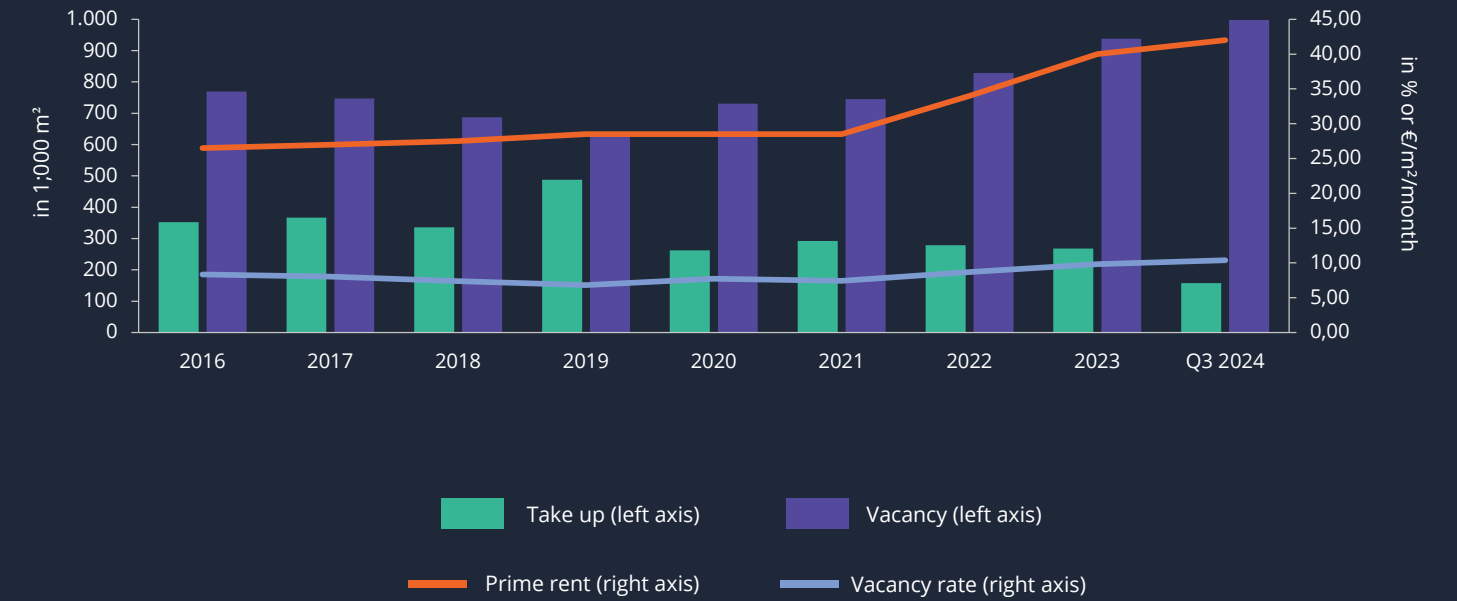
Building and Real Estate Management NRW Schwannstraße 10 Kennedydamm	7,000 m ²
Noerr Partnerschaftsgesellschaft mbB „Le Coeur“ – Benrather Straße CBD	6,000 m ²
Oddo BHF Tersteegenstraße 14 Kennedydamm	3,900 m ²
voestalpine Böhler Welding Group „Albertusbogen“ – Heerdter Lohnweg 35 West/linksrheinisch	3,900 m ²
City of Dusseldorf „ALFRED“ – Redlichstraße2a North	3,400 m ²

TAKE-UP BY TOP 5 SECTOR

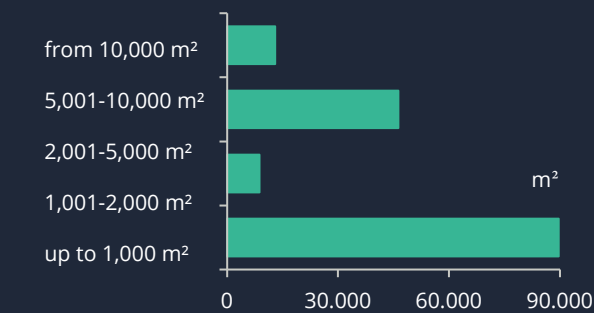
- Consulting
- Manufacturing
- Legal
- Public Authority
- Trade / E-Commerce
- Other



TAKE-UP, VACANCY AND PRIME RENT



TAKE-UP BY SIZE CATEGORY

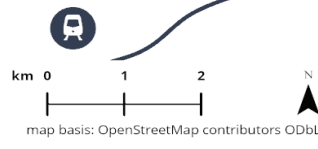
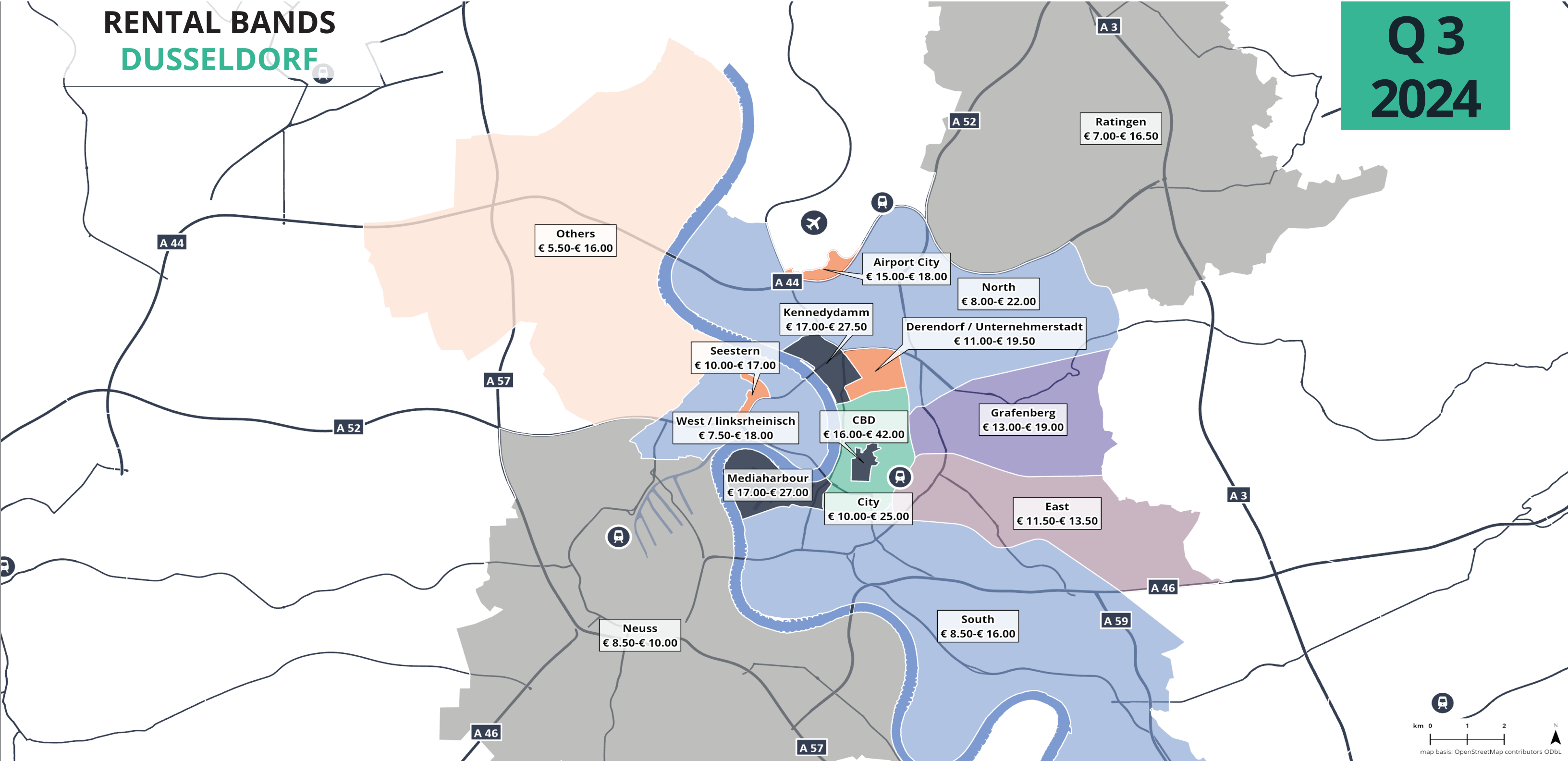


COMPLETIONS



RENTAL BANDS DUSSELDORF

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OFFICE MARKET FRANKFURT

The Frankfurt office market remains active, though much of the activity is happening behind the scenes. As a result, office space turnover in the third quarter was low, at just 83,700 m², bringing the total for the first three quarters to 258,300 m². This is 8% below the five-year average. As in the second quarter, there were no deals over 10,000 m² in the third quarter. Several large inquiries are in progress, and the timing of these deals will largely determine the office space turnover for 2024. If these deals are concluded in the last three months of the year, turnover should exceed 350,000 m².

While some companies continue to expand, the dominant trend is space reduction. Owners of office towers are increasingly concerned with how to best reallocate vacated floors. Tenants seeking high-quality spaces are willing to pay higher rents, not just in the CBD but also for improvements in location, such as moving from peripheral areas to the city fringe. In the top segment, user demands - such as those from international law firms or financial service providers - are so high that rents above €50/m²/month are occasionally within reach. So far, prime rent has remained stable at €47.50/m²/month but may rise slightly in the coming quarters. At the other end of the spectrum, some outdated spaces are no longer rentable, even at lower prices. In locations with high vacancy rates, especially in older buildings, more and more landlords are offering shorter lease terms, often for just two or three years, as the priority is generating cash flow.





OFFICE MARKET FRANKFURT

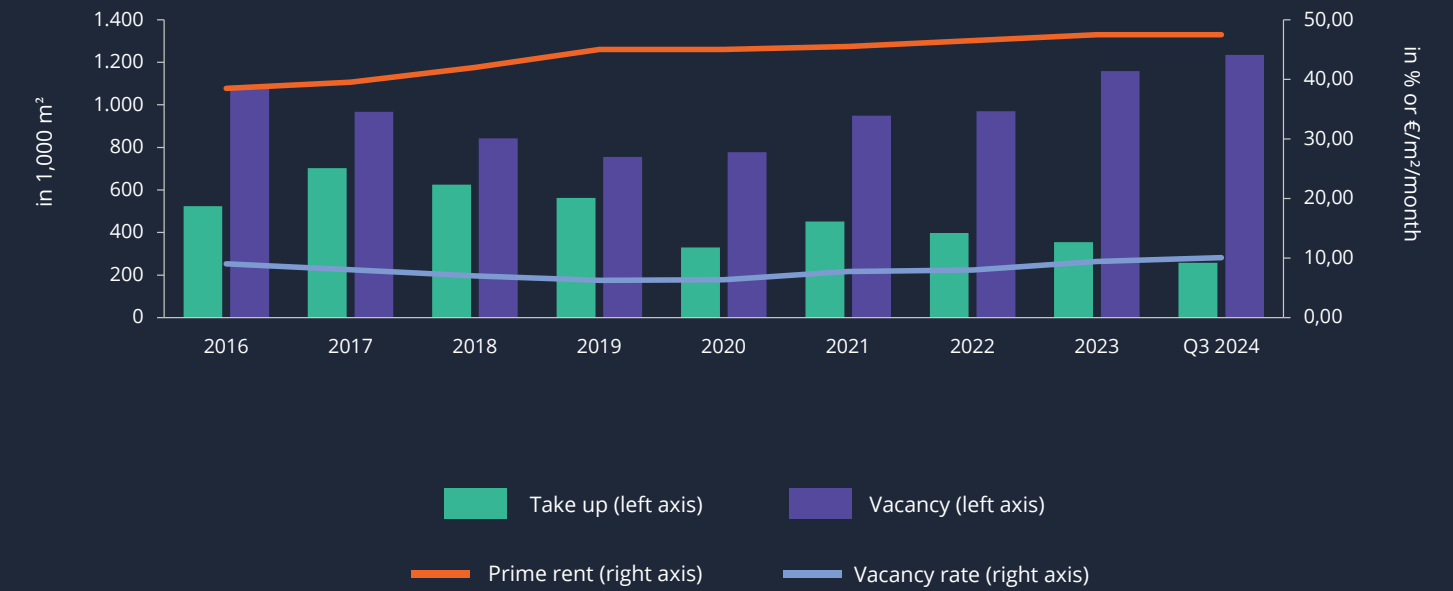
	Q3 2024	compared to previous year	Outlook*
Take-up (accumulated) (m ²)	258,300	-6 %	↑
Prime rent (€/m ² /month)	47.50	+ 1.00 €	↑
Average rent (€/m ² /month)	24.60	+ 1.05 €	
Vacancy rate (%)	10.1 %	+ 110 bp	↑

* in each case by end of year, except take-up: compared with previous year

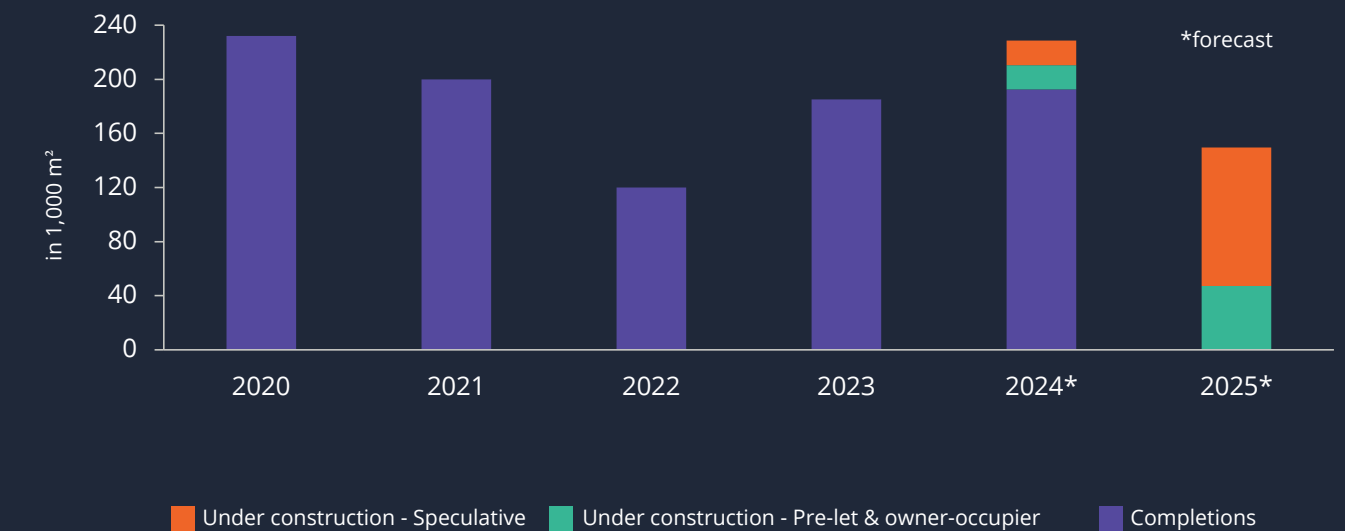
TOP 5 DEALS Q1-3

EZB / Banking Supervision „Galileo“ Banking District	36,700 m ²
Frankfurter Sparkasse Hauptwache 1 City	7,300 m ²
Frankfurt School of Finance „Bertramshof“- Am Steinernen Stock 1 North	6,700 m ²
Bundesrepublik Deutschland – Finanzagentur GmbH „Opal“- Olof-Palme-Straße 13 Mertonviertel	5,800 m ²
Air Liquide „The Move“ – De-Saint-Exupéry-Straße 3 Airport	5,000 m ²

TAKE-UP, VACANCY AND PRIME RENT

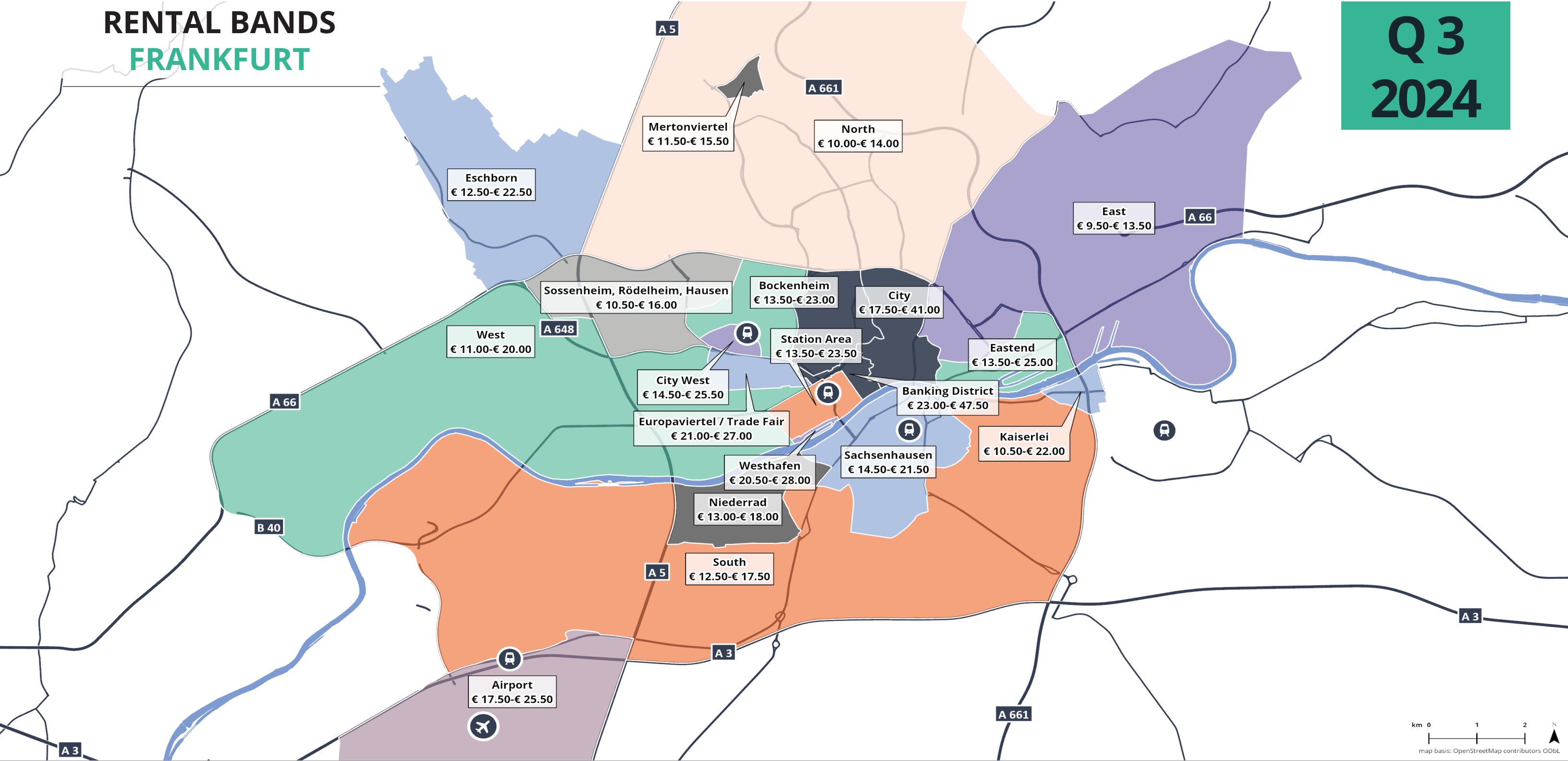


COMPLETIONS



RENTAL BANDS FRANKFURT

Q3
2024



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map basis: OpenStreetMap contributors ODbL

OFFICE MARKET HAMBURG

The market situation in Hamburg changed little during the third quarter: decisions continue to take a long time, and the measurable office space turnover remained weak. However, the numbers hide the fact that many inquiries simply cannot be met due to a lack of suitable spaces. As a result, many tenants are still being forced to extend their leases. High-quality spaces in downtown locations remain the focus for tenants looking to relocate, regardless of size. Notably, the largest deal of the year took place in the third quarter. After nine months, there were four deals exceeding 10,000 m², totaling around 64,000 m², compared to just two such deals totaling nearly 30,000 m² in the same period last year. Overall, office space turnover of 293,200 m² was 8% below the previous year and 18% below the five-year average. By year-end, one or two more large deals may occur, pushing the total turnover to 400,000 m². Otherwise, a continued moderate market dynamic is expected.

Vacancies saw only a slight increase, reaching 691,100 m², partly due to the lack of new space delivered to the market from the construction pipeline between July and September. Less than 5,000 m² is expected to come on the market in the fourth quarter. Even next year, the availability of new or refurbished space will be very limited, with only 60,000 m² expected to be available, and just 22,000 m² in the expensive City and Hafencity submarkets - of which only one project offers at least 5,000 m². Prime rent remained stable at €35.00/m²/month, with no changes in rent ranges across submarkets or in incentives.





OFFICE MARKET HAMBURG

	Q3 2024	compared to previous year	Outlook*
Take-up (accumulated) (m ²)	293,200	- 8 %	↓
Prime rent (€/m ² /month)	35.00	+/- 0 €	→
Average rent (€/m ² /month)	20.50	- 0.50 €	
Vacancy rate (%)	4.6 %	+ 70 bp	→

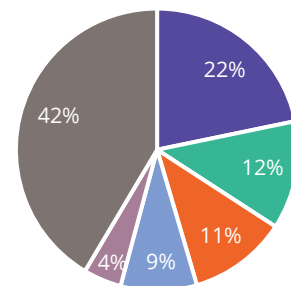
* in each case by end of year, except take-up: compared with previous year

TOP 5 DEALS Q1-3

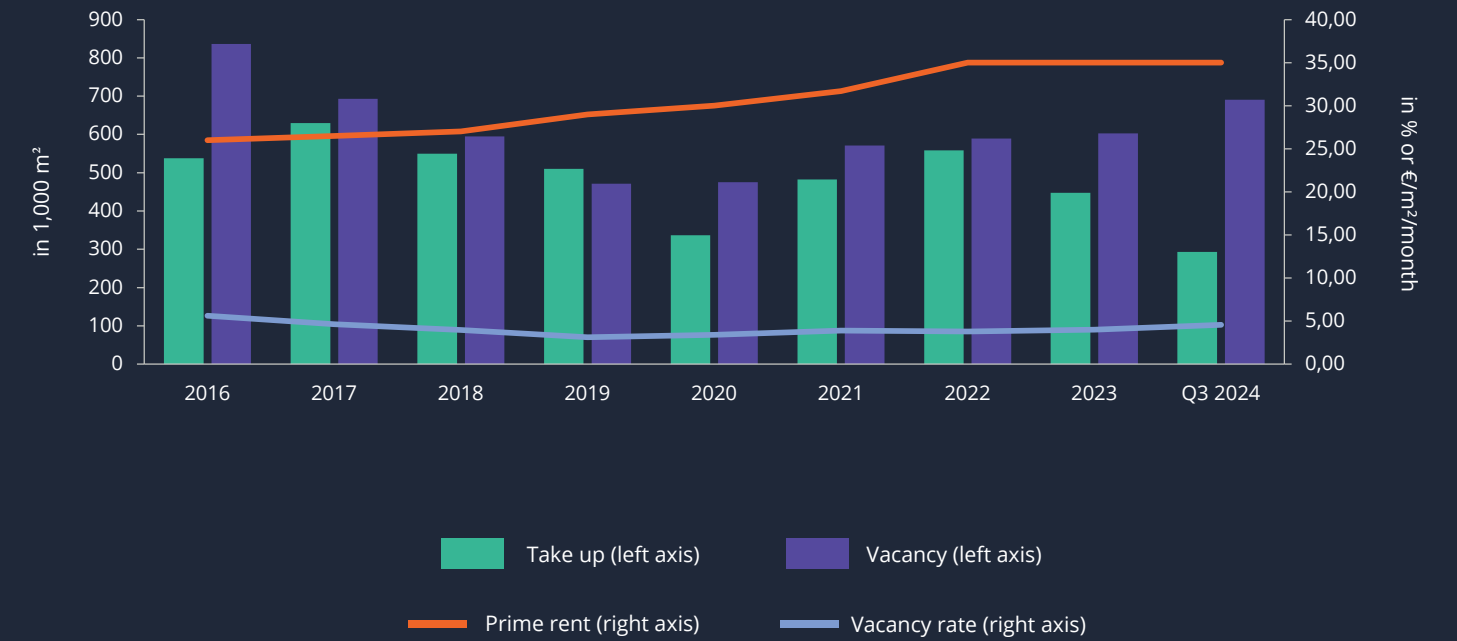
Free and Hanseatic City of Hamburg „Tanzende Türme“ – Reeperbahn 1 St. Pauli / Hafenrand	21,000 m ²
STRABAG GmbH „BORX“ – Eiffestraße City South	18,100 m ²
Hamburg tax Authority Adolphsplatz 3-5 / Großer Burstah 2-16 City	14,900 m ²
German Police Union Hamburg Überseering 35 City North	10,000 m ²
Mazars „LEE“ (Überseequartier) – Überseeallee Hafencity	5,600 m ²

TAKE-UP BY TOP 5 SECTOR

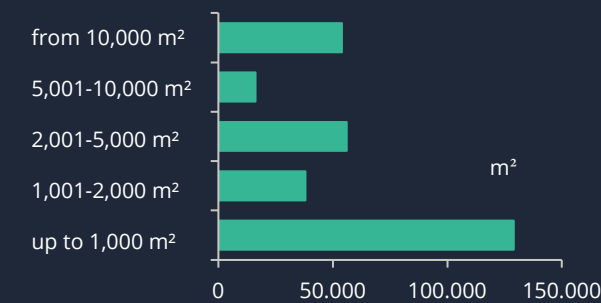
- Public Authority
- Building Sector
- Services
- Trade / E-Commerce
- Health / Pharma
- Other



TAKE-UP, VACANCY AND PRIME RENT



TAKE-UP SIZE BY CATEGORY

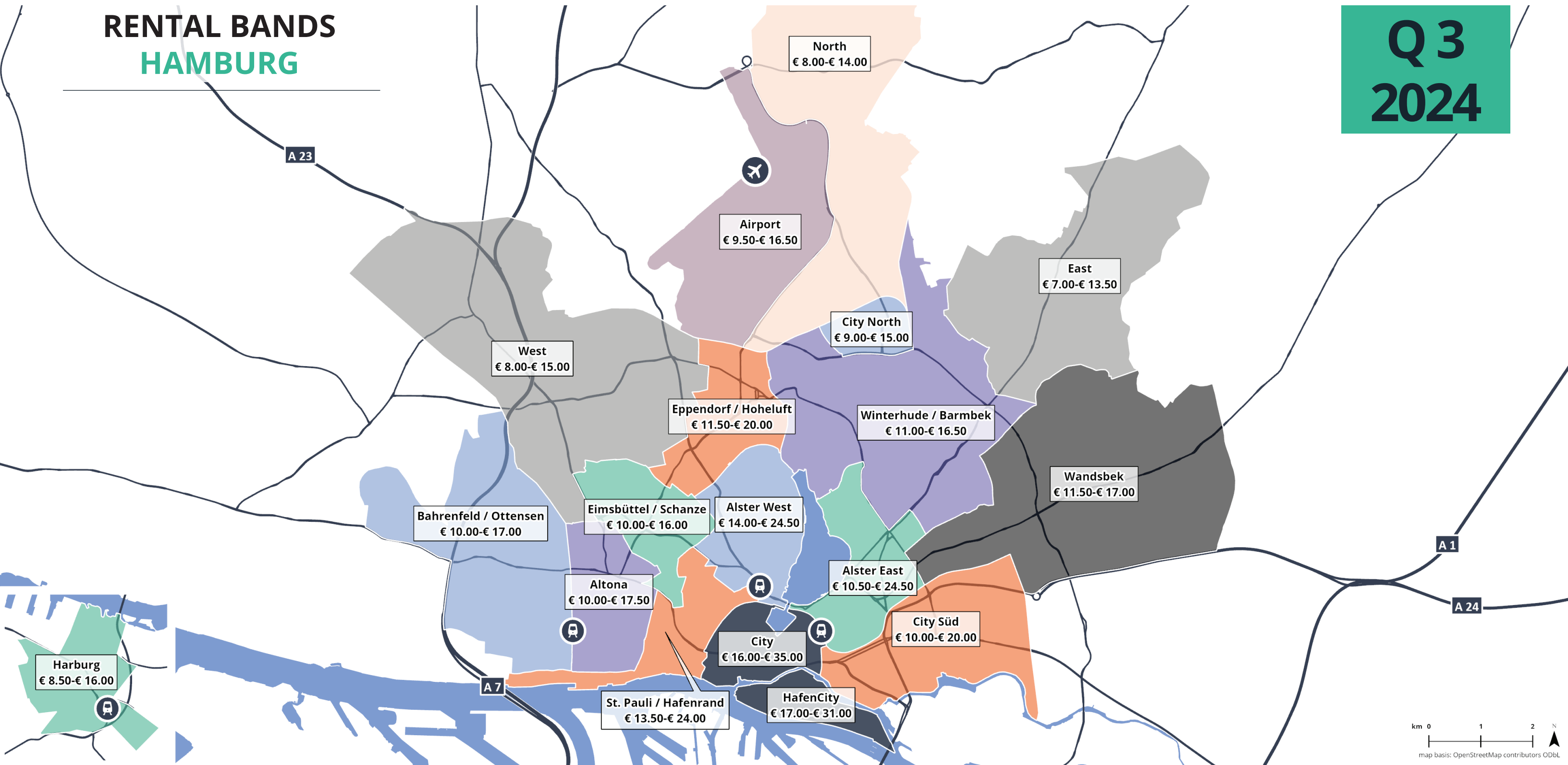


COMPLETIONS



RENTAL BANDS HAMBURG

**Q 3
2024**



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map basis: OpenStreetMap contributors ODbL

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