

Research

Office Market Overview

Q4 2023

Office letting market weakens in uncertain economic times



2023 take-up remains 28 per cent below the previous year's level

Irrespective of which indicator you look at, or which economic experts or business associations you ask, most are entering the new year in a downcast mood. Yet we have only just come out of a year that, in retrospect, had a lot of uncertainties to consider and this baggage cannot be discarded after a period in the doldrums, as is so often the case in the history of the German economy. On the contrary, it seems as if the 2023 sentiment will be carried forward into 2024.

The fact is that 2023 was not an exhilarating year for the German office letting market, with the letting markets in the country's Top 7 office strongholds closing the year with a total take-up of just over 2.5 million sqm. Given the challenges and uncertainties that have accompanied businesses in all sectors over the past 12 months, this result is unsurprising and confirms our October forecasts. Nonetheless, it is the weakest take-up result recorded since 2009 and, compared to 2022 which was a year with very strong demand, the decline was correspondingly large at 28 per cent.

All Top 7 real estate strongholds experience a substantial drop in take-up

Year-on-year, all of Germany's Top 7 real estate strongholds experienced a significant decline in take-up. Despite this, the fourth quarter was the strongest of the year in four of the Top 7 office markets, Frankfurt, Cologne, Munich and Stuttgart, with Frankfurt and Düsseldorf able to contain the annual loss in the single-digit percentage range. Once again, the largest drop (of 49 per cent) was observed in Stuttgart, although this has reduced slightly since its fall of 57 per cent registered in October.

Unfortunately, the delayed impact on the office letting market of the interlinked crises since Russia's attack on Ukraine was all the more dramatic given the outstanding letting year in 2022. However, in view of the historically unprecedented combination of challenges ranging from the turnaround in interest rates and energy prices to geopolitical conflicts, it was inevitable that the office letting markets would be unable to end the year unscathed. Businesses across all sectors are too strongly affected by the diverse impacts. However, unlike the investment market, these impacts may be less severe, and with slight overall economic recovery expected in 2024, office take-up is likely to increase again. Our current forecast shows an increase of ten per cent for the coming year.



Prime Rental Index and Take-up

BIG 7

1 of 2



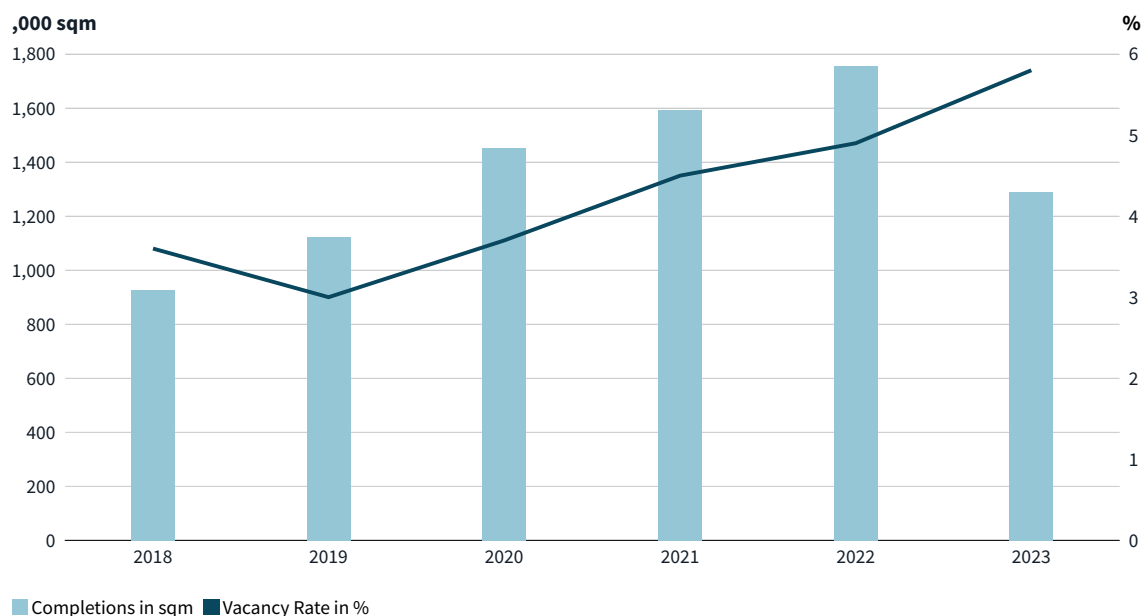
Status: January 2024; Source: JLL



Completions and Vacancy Rate

BIG 7

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Status: January 2024; Source: JLL

Elections and geopolitics will have a decisive impact on the office markets in 2024

The burden of geopolitical conflicts, a lack of economic impetus from outside Germany, noticeable inflation and a 'glass half empty' mindset among consumers is weighing heavily. The extent to which such negative sentiment will become entrenched globally is likely to be determined by a unique event in history: globally, over half of the world's population will be able to participate in elections in 2024. From India to Indonesia, and from the UK to the USA. Never before in history will so many citizens have elected new governments within a year, with corresponding consequences for future trade and economic relations.

Expressed in cold, hard figures, the German economy is expected to have shrunk marginally in 2023. According to Consensus research, negligible growth of 0.4 per cent is expected for 2024. Nonetheless, the opinions of economic research institutes diverge widely, ranging from -0.5 per cent to 1.3 per cent, reflecting the uncertainty that prevails among experts when it comes to assessing future economic trends. On a more positive note, the labour market is expected to remain largely stable, with the unemployment rate levelling off at 5.8 percent.

'Support' will come from a new phenomenon that is likely to become apparent next year: the demographic effect. With an ageing population, the number of people in employment is likely to fall for the first time. This presents companies with new challenges in terms of filling vacancies and will require either further investment in the 'human factor' in the form of higher wages and salaries or in digitalisation and the integration of artificial intelligence into workflows and processes to increase efficiency and productivity.

The property market is not immune to this and both of the investment options outlined above require constant adaptation and rethinking of the office space. We also see a clear focus on quality in 2024. This is likely to further drive the differentiation of the market, with further increases in prime rents for premium quality space and reductions in rents for outdated office stock expected. As long as Germany does not slide into a deep and sustained recession, which does not look likely at this stage, these office market trends should not change. Offices will remain an indispensable part of corporate culture in the future, as evidenced by the slight increase in the rates of return to the office, although hybrid working will continue to exist.

Another aspect of attractive and therefore more expensive office space is sustainability. This trend is also irreversible. However, there is a big question mark over development projects. The tension in the market continues to cause new developments to be postponed or cancelled, and normality is unlikely to be quickly resumed. The more the pipeline for new-builds and revitalisations dries up and therefore less modern office space comes onto the market, the more rents for available space in central locations will rise.



Volume of new construction falls by around 27 per cent in 2023 compared to the previous year

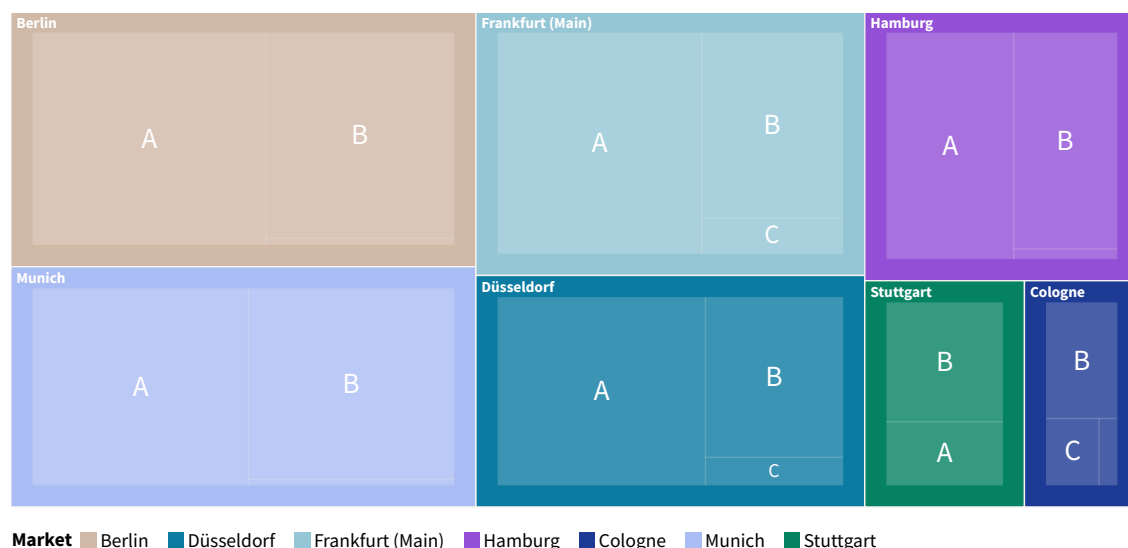
In the construction industry, developers were faced with enormous challenges in 2023, namely high building costs and shortages of skilled labour and materials. While there is at least a slight easing on the cost side with building costs falling (albeit remaining at a historically high level), the bottlenecks in financing, a lack of demand and the sustained shortage of skilled labour are continuing to cause the industry concern. This means that numerous construction sites are at a standstill, delays are occurring with considerable consequences for all those involved and some planned projects are being cancelled altogether. A total of around 1.3 million sqm of new space came onto the market in 2023, down 27 per cent on the previous year. Only Frankfurt observed the completion of slightly more office space in the same period; all other markets recorded a decline.

Higher volumes are expected for 2024 (1.9 million sqm) and 2025 (1.7 million sqm), but these are significantly lower than anticipated a year ago. It is also possible that these forecasts may reduce further over the course of the year, given the current economic climate. On a positive note, almost half of this space (49 per cent) is currently let or occupied by owner-occupiers. Pre-letting and occupancy rates range from 43 per cent in the capital, Berlin, and in Düsseldorf to 60 per cent in Stuttgart. JLL is observing the strongest construction activity in the two largest office markets, Berlin and Munich, which account for 57 per cent of the currently expected construction volume for 2024 and 2025.



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Vacancy and Quality

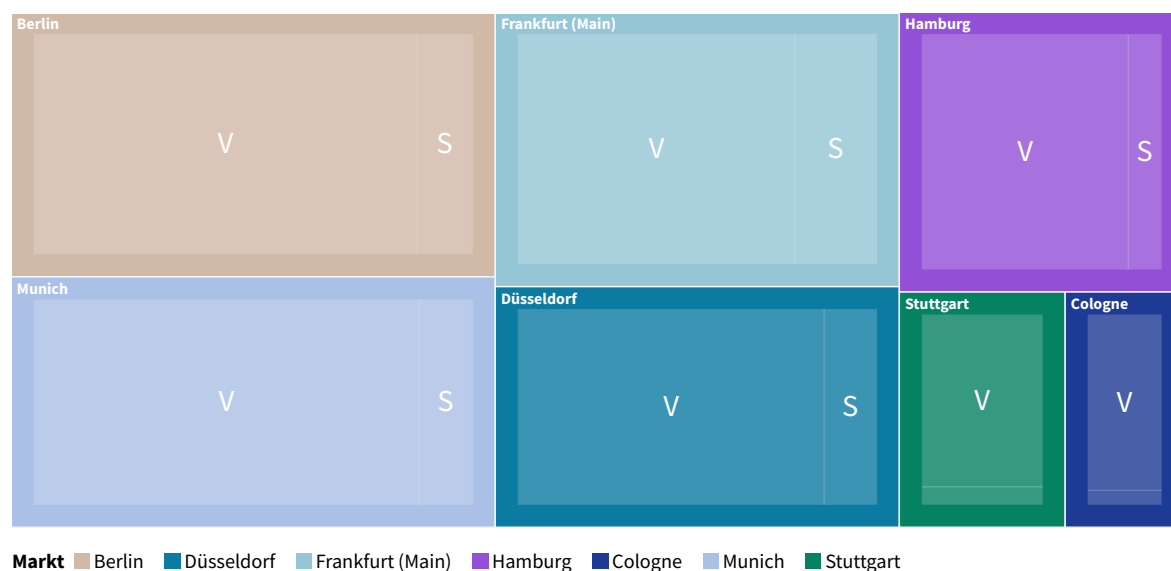


The size of the rectangles refers to the vacancy rate of the respective quality category •
Status: January 2024; Source: JLL



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Vacancy (V) and Sublettings (S)



The size of the rectangles refers to the vacancy rate of the respective category •
Status: January 2024; Source: JLL

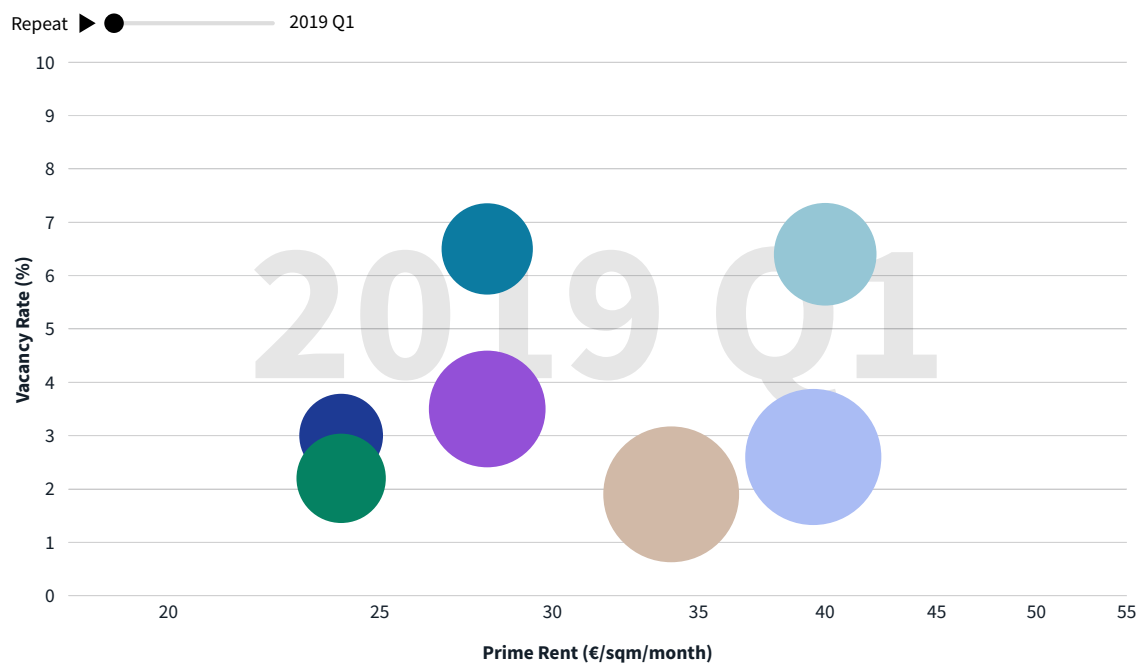
Vacancy increases, but remains in the single-digit range everywhere

The reduction in the volume of new construction is easing pressure slightly on the supply side, but newly constructed space directly impacts on the volume of vacancies where it is not yet let at the time of completion. In the months from October to December 2023, this amounted to over 150,000 sqm in the Top 7 office markets. The weak economy also means that some companies are leaving more space behind than they are moving into when they relocate, making a total of 5.64 million sqm available to companies looking for short-term space in the seven strongholds at the end of the year. This corresponds to a vacancy rate of 5.8 per cent, 0.3 percentage points higher than three months ago.

Vacancy rates in the Top 7 office markets are all in the single-digit percentage range, ranging from 3.3 per cent in Cologne and 4.0 per cent in Stuttgart (where there is still a shortage of available space), to 8.8 per cent in Frankfurt and 9.7 per cent in Düsseldorf.

The fall in the volume of space offered for subletting has had a positive effect. While three months ago, the statistics showed 835,000 sqm, this figure had fallen to 808,000 sqm by the end of the year. Some units have been let and only a few are being added to the market. This reflects the progress in the hybridisation of workplace models and therefore it would appear that the considerable reduction in floor space due to the introduction of hybrid working environments is complete. This trend also shows that most users are focusing on well-appointed space when planning to lease new premises and therefore to relocate. However, for owners of vacant lower quality B and C grade buildings, it will become increasingly difficult to market the space without upgrading it.

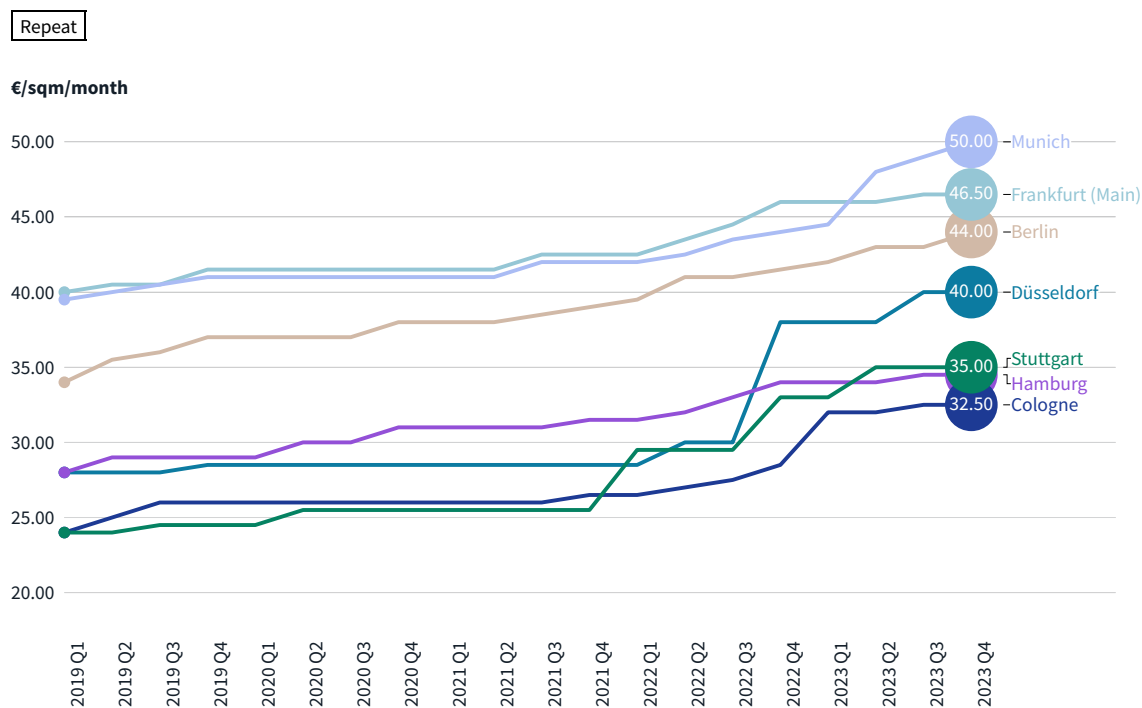
Comparison of prime rents and vacancy rates



Market Berlin Cologne Düsseldorf Frankfurt (Main) Hamburg Munich Stuttgart

The size of the circles refer to the office space stock of the respective market •
Status: January 2024; Source: JLL

Prime Rents Development



Status: January 2024; Source: JLL

Prime rent in Munich reached €50.00 per sqm; rental incentives expected to rise

In the meantime, prime office rents have only been going one way for the past 13 years: upwards. This was evident in 2023, with the JLL Prime Rent Index climbing by 6.8 per cent to a new high of 275 points in the last twelve months. Rent rises are being observed in all seven cities, although the upward trend has partially come to a halt in the last three months. The exceptions are Berlin and Munich where prime rents have risen by a further €1.00 per sqm. In Munich, the €50.00 per sqm mark was reached at the end of the year, bringing the annual increase in the Bavarian capital to 14 per cent. Rents in Cologne have also risen at the same rate to their current level of €32.50 per sqm, while Frankfurt remains the straggler in terms of growth, with a rise of just over one per cent in the year-end balance sheet.

We expect this trend to continue in 2024, at least for prime rents in the best locations. However, the pressure will increase in the near future in peripheral locations and in properties with only average or below-average fit-out specifications. This may lead to further falls in average rents, increasingly prompting owners to offer incentives to their tenants. Nominal prime rents have already risen more sharply than effective rents, demonstrating that landlords are prepared to offer more incentives than in previous years. Rental incentives converted into rent-free periods are likely to increase to up to 15 per cent over the course of the year.



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Office Space Take-up incl. owner occupier (sqm)	2022	2023	%
Berlin ¹	765,000	528,600	-31
Düsseldorf ²	318,000	302,000	-5
Frankfurt/M ³	430,800	404,000	-6
Hamburg ⁴	597,700	456,200	-24
Cologne ⁵	326,400	207,700	-36
Munich Region ⁶	760,100	480,800	-37
Stuttgart ⁷	305,900	157,400	-49
Total	3,503,900	2,536,700	-28

1 City Area; 2 City Area incl. Ratingen, Neuss, Erkrath and Hilden; 3 City Area incl. Eschborn and Kaiserlei; 4 City Area; 5 City Area; 6 City Area incl. surrounding areas; 7 City Area incl. Leinfelden-Echterdingen • Status: January 2024; Source: JLL



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Vacancy incl. Space for subletting	Q4 2022		Q4 2023		%
	sqm	Rate (%)	sqm	Rate (%)	
Berlin ¹	970,000	4.4	1,197,500	5.4	23
Düsseldorf ²	732,700	7.9	906,500	9.7	24
Frankfurt/M ³	997,600	8.5	1,036,700	8.8	4
Hamburg ⁴	643,800	4.2	744,700	4.8	16
Cologne ⁵	235,000	3.0	260,300	3.3	11
Munich Region ⁶	893,500	4.1	1,131,000	5.2	27
Stuttgart ⁷	235,700	2.6	364,200	4.0	55

1 City Area; 2 City Area incl. Ratingen, Neuss, Erkrath and Hilden; 3 City Area incl. Eschborn and Kaiserlei; 4 City Area; 5 City Area; 6 City Area incl. surrounding areas; 7 City Area incl. Leinfelden-Echterdingen •
Status: January 2024; Source: JLL



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Prime Office Rents (€/sqm/Month)	Q4 2022	Q4 2023	%
Berlin ¹	41.50	44.00	6
Düsseldorf ²	38.00	40.00	5
Frankfurt/M ³	46.00	46.50	1
Hamburg ⁴	34.00	34.50	2
Cologne ⁵	28.50	32.50	14
Munich Region ⁶	44.00	50.00	14
Stuttgart ⁷	33.00	35.00	6

1 City Area; 2 City Area incl. Ratingen, Neuss, Erkrath and Hilden; 3 City Area incl. Eschborn and Kaiserlei; 4 City Area; 5 City Area; 6 City Area incl. surrounding areas; 7 City Area incl. Leinfelden-Echterdingen •
Status: January 2024; Source: JLL



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Completions (in sqm)	2022	2023	%
Berlin ¹	715,900	361,000	-50
Düsseldorf ²	103,700	70,100	-32
Frankfurt/M ³	130,500	155,500	19
Hamburg ⁴	231,400	226,900	-2
Cologne ⁵	93,500	84,300	-10
Munich Region ⁶	375,000	309,500	-18
Stuttgart ⁷	105,500	82,600	-22

1 City Area; 2 City Area incl. Ratingen, Neuss, Erkrath and Hilden; 3 City Area incl. Eschborn and Kaiserlei; 4 City Area; 5 City Area; 6 City Area incl. surrounding areas; 7 City Area incl. Leinfelden-Echterdingen •
Status: January 2024; Source: JLL



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Office Space Stock (in Mill. sqm)	Q4 2022	Q4 2023	%
Berlin ¹	21.80	22.14	1.5
Düsseldorf ²	9.33	9.36	0.3
Frankfurt/M ³	11.76	11.82	0.5
Hamburg ⁴	15.43	15.66	1.5
Cologne ⁵	7.87	7.90	0.4
Munich Region ⁶	21.60	21.89	1.3
Stuttgart ⁷	9.15	9.21	0.7

1 City Area; 2 City Area incl. Ratingen, Neuss, Erkrath and Hilden; 3 City Area incl. Eschborn and Kaiserlei; 4 City Area; 5 City Area; 6 City Area incl. surrounding areas; 7 City Area incl. Leinfelden-Echterdingen •
Status: January 2024; Source: JLL

Berlin

Below-average take-up, also in the fourth quarter

A total of 528,600 sqm of office space was let in Berlin in 2023, 236,400 sqm (31%) less than in the same period of the previous year, and 37% and 34% below the five- and ten-year averages, respectively. The final quarter performance was also below average with a take-up of 122,400 sqm.

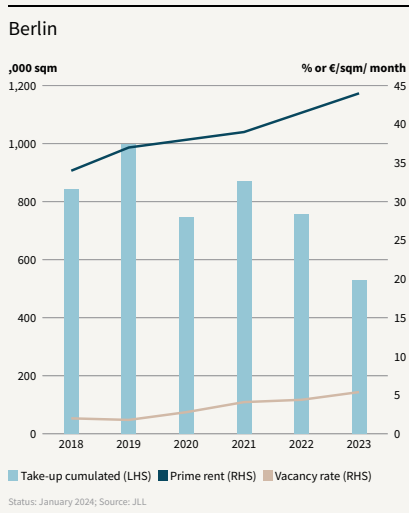
The average transaction size in 2023 was 759 sqm, around 14% smaller than in the same period of the previous year.

The <500 sqm size category accounted for around 22% of total take-up in 2023 (compared to 18% in 2022) and therefore the highest share over the year. A total of 14 high-volume deals in excess of 5,000 sqm were concluded in 2023, compared to 21 in the previous year. Three of these deals were concluded in the >10,000 sqm size category, compared to seven such deals in 2022.

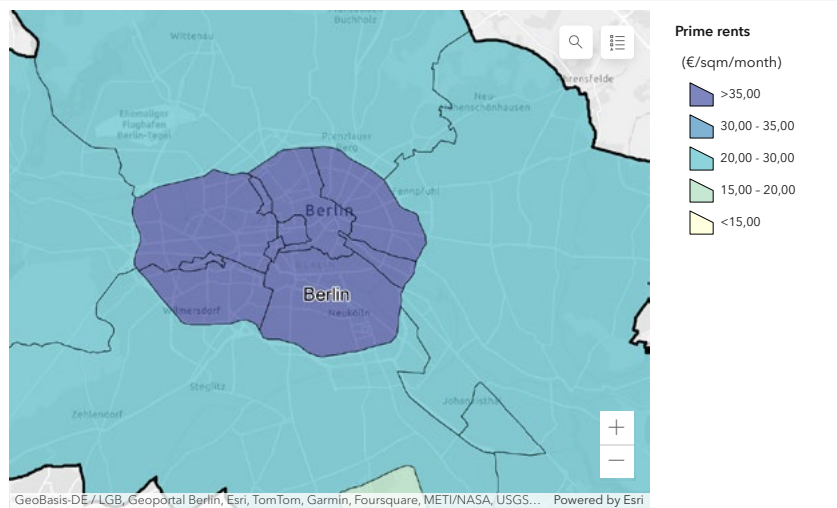
The strongest submarket in terms of take-up in 2023 was Kreuzberg-Tempelhof with a share of around 17% (11% in 2022), followed by Mitte with 13% (19% in 2022) and Charlottenburg-Tiergarten with 12% (12% in 2022).

The vacancy rate reached 5.4% in the fourth quarter of 2023, 0.4 percentage points up on the previous quarter and 1.0 percentage point higher year-on-year. Around 1.2 million sqm of office space was available to potential tenants at short notice at the end of the year. In the final quarter of 2023, the Area Airport Berlin-Brandenburg submarket recorded the highest vacancy rate in Berlin (37.9%), while the Area Main Station-Europacity submarket registered the lowest (1.3%).

The prime rent ended the year at €44.00/sqm per month, a rise of €1.00/sqm per month compared to the previous quarter.



Office Market Areas with Rental Bands Berlin



Düsseldorf

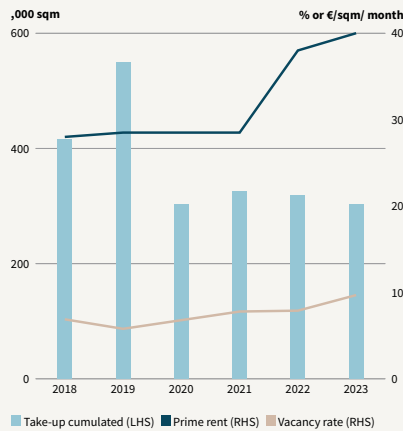
Take-up only just exceeds 300,000 sqm

At 302,000 sqm, around 5.0% less space was taken up in Düsseldorf's office property market in 2023 than in the previous year. This result also fell 21% below the five-year average.

Around two-thirds of take-up was registered in the second half of the year, boosted by two deals concluded in the $\geq 10,000$ sqm size category: while Deutsche Rückversicherung AG is constructing around 27,100 sqm for its own use in the Linksrheinisch submarket, Freshfields Bruckhaus Deringer signed a contract for around 10,500 sqm in the Le Coeur development in the Central Business District (CBD). The third-largest deal was also registered in a development in the CBD; here, Hengeler Mueller leased around 9,600 sqm in Trinkaus Karree. The majority of the space taken up over the year (260,700 sqm) was located in the city market area. The submarket with the highest take-up was the CBD (43,200 sqm), followed by Linksrheinisch (39,700 sqm) and Airport (37,400 sqm). Business Services were responsible for the strongest demand, accounting for almost a quarter of the total take-up.

The vacancy rate rose from 7.9% to 9.7% over the year, mainly due to the increase in space available for subletting. Their share of the total vacancy (906,500 sqm) is 15% at the end of the year. The contribution of completed new developments to the increase in vacancies was negligible, with a supply pipeline of around 70,000 sqm which was one third less than the five-year average, and only 26,000 sqm of this space was built speculatively. Given the abundance of available space, owners are showing a greater willingness to grant incentives in the form of rent-free periods or tenant improvement (TI) cost subsidies.

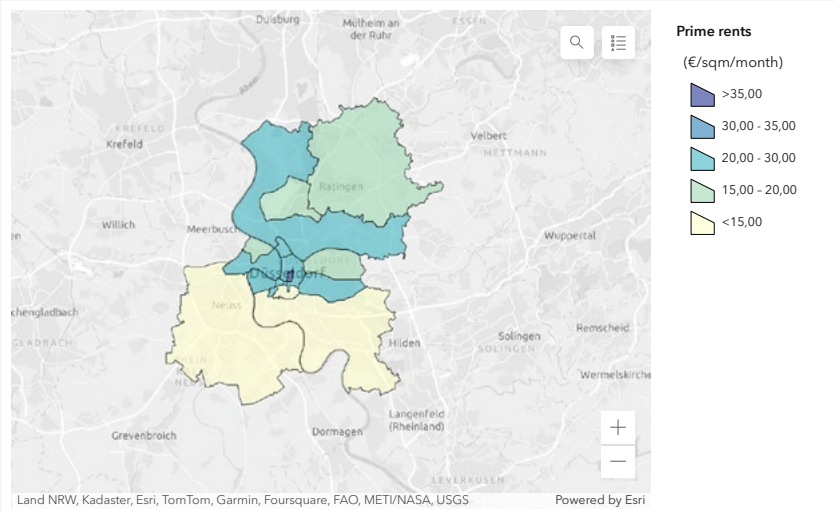
Düsseldorf



Status: January 2024; Source: JLL

The prime rent, achievable in the CBD, increased by 5.0% year-on-year, to reach its current level of €40.00/sqm per month. A further rise is expected in 2024 due to further conclusion of several contracts in high-priced projects.

Office Market Areas with Rental Bands Düsseldorf



Frankfurt

Strong quarter at the end of a disappointing letting year in Frankfurt

A total take-up of 132,000 sqm was recorded in Frankfurt in the final quarter of 2023, making it the strongest quarter of the year; however, fewer contracts were concluded (133) than in the third quarter (172). A total of 404,000 sqm of office space was let in 2023, 6.0% less than in the same period of the previous year and 17% below both the five- and ten-year averages.

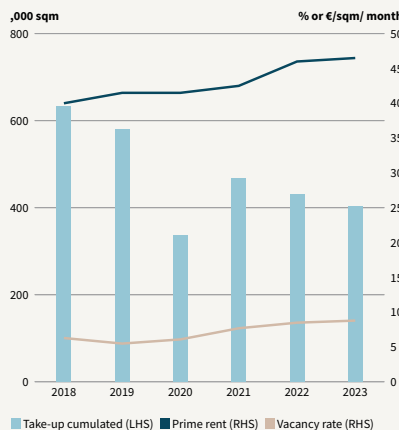
Eight high-volume deals in excess of 5,000 sqm were registered in 2023, two of which were in the >10,000 sqm size category. The largest deal of the year was concluded in the West submarket in the fourth quarter (46,000 sqm).

The submarket with the highest take-up volume in 2023 was West with 94,400 sqm and a share of around 23%, an increase on the same period of the previous year (37,100 sqm). The Banking District assumed second place in the submarket ranking with take-up of 58,000 sqm and a share of around 14%. With 77,400 sqm (19% share), the Banking, Finance sector accounted for the highest volume of take-up in 2023, followed by Business Services (64,700 sqm and 16%).

By the end of the final quarter of the year, the vacancy rate in the office market was 8.8%, 0.5 percentage points higher than in the previous quarter and 0.3 percentage points up on the corresponding quarter of the previous year. Sachsenhausen reported the lowest vacancy rate in the city (1.8%), followed by Westend (2.3%). Around 1.04 million sqm of office space was available to potential tenants at the end of the year.

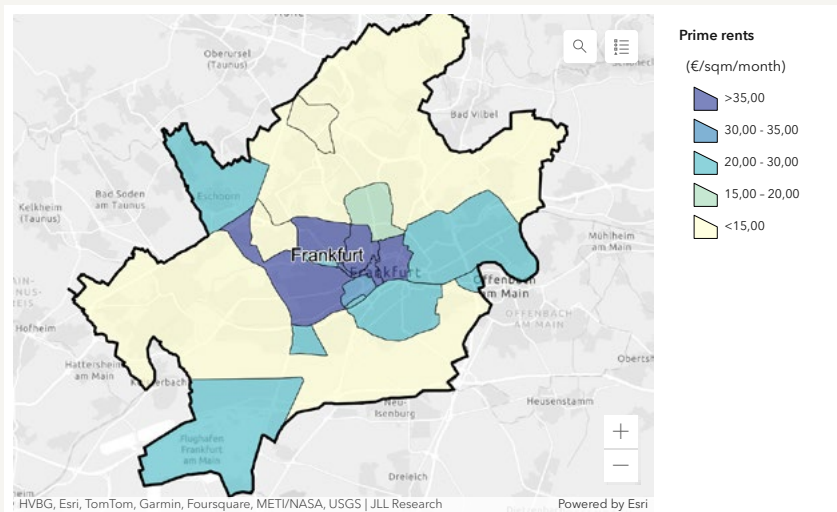
In the final quarter, the prime rent was unchanged from the previous quarter at €46.50/sqm per month.

Frankfurt (Main)



Status: January 2024; Source: JLL

Office Market Areas with Rental Bands Frankfurt



Hamburg

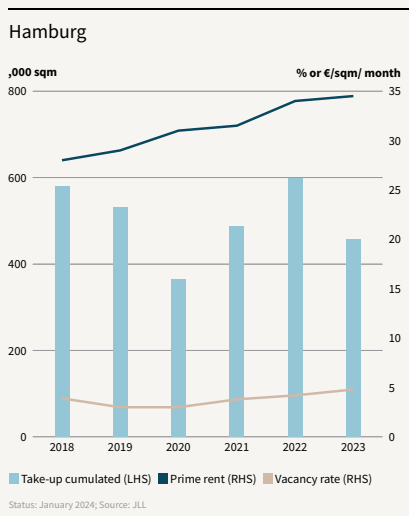
Significant overall reduction in office space take-up despite high-volume deals

A total take-up of around 456,200 sqm was registered in Hamburg's office rental market in 2023, a reduction of 24% compared to the same period of the previous year. Four high-volume deals of over 10,000 sqm contributed to the result, the largest of which was an owner-occupier deal concluded by the HPA Hamburg Port Authority in HafenCity (22,200 sqm). In the other deals, RTL Nord leased 17,200 sqm in HafenCity, Fielmann AG 15,300 sqm in Barmbek-Bramfeld and Airbus Deutschland 12,500 sqm in City Nord. The disappointing result was due to a 17% reduction in the number of contracts signed, which fell from 585 in 2022 to 484 in 2023.

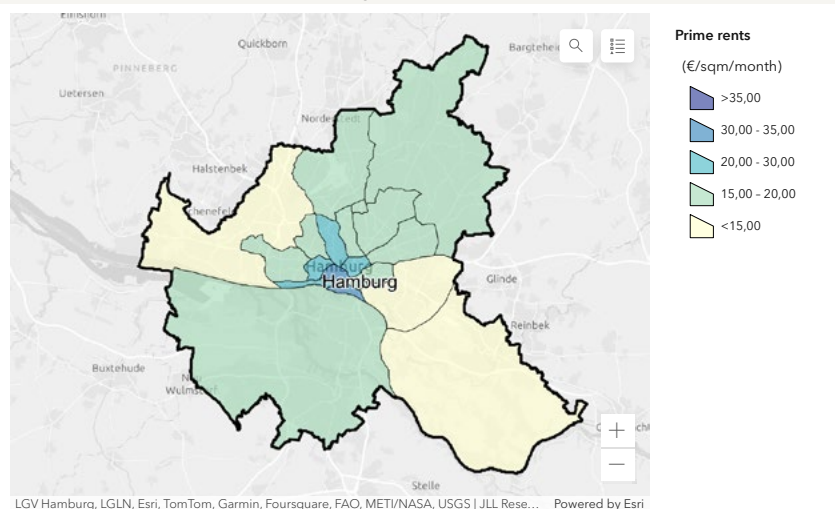
In a sectoral analysis, Business Services, Public Administration and Manufacturers accounted for similar volumes of take-up with shares of 14%, 12% and 11%, respectively. The City Centre, traditionally the most sought-after submarket, recorded 23% of take-up, followed by HafenCity with 14%.

Around 227,000 sqm of office space was completed in the city in 2023, including Hamburger Sparkasse's owner-occupied Deutschlandhaus in the City Centre submarket. The volume of vacancies has grown to just under 745,000 sqm, corresponding to a vacancy rate of 4.8%, while there is currently 550,000 sqm of office space under construction, around half of which is still available to let. At just under 25%, HafenCity accounts for the largest volume of new construction, but Signa's prestigious Elbtower project in this submarket is now on hold.

By the end of the year, the prime rent had reached €34.50/sqm per month and the average rent was €20.87/sqm per month.



Office Market Areas with Rental Bands Hamburg



Cologne

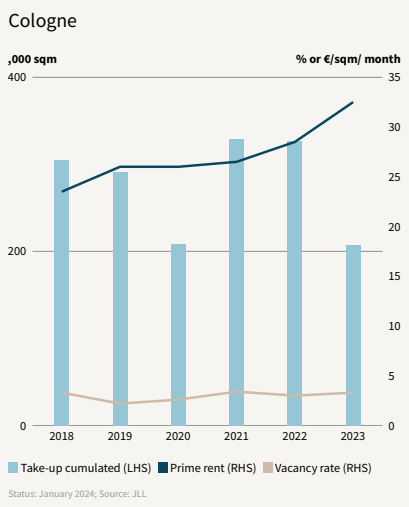
Take-up falls by a third

A total take-up of around 207,700 sqm was recorded in Cologne's office rental market in 2023. The significantly improved take-up activity in the second half of the year (129,200 sqm) was unable to compensate for the poor performance in the first six months (78,500 sqm). Therefore, the overall result was around 36% lower year-on-year and 29% below the five-year average. There was also an 11% reduction in the total number of deals finalised compared to 2022.

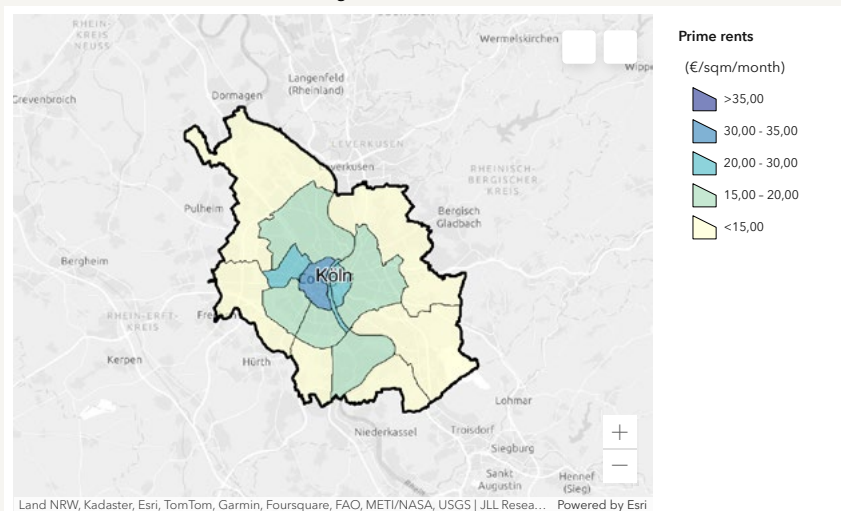
The two largest transactions of the year were concluded in the fourth quarter and involved the leasing of around 14,100 sqm by DEVK in the Rheinpark-Metropole in the Deutz/Messe submarket and the deal signed by the Cologne Chamber of Industry and Commerce for around 13,700 sqm of space in the City submarket. The third-largest letting (9,200 sqm) was concluded by Kirchliche Zusatzversorgungskasse des Verbands der Diözesen Deutschlands (a church welfare fund) in a development in the City submarket. The City submarket was once again the most popular submarket, accounting for 36% of the total take-up volume. The sectoral ranking was led by Business Services (20%), followed by Insurance (14%).

Despite rising slightly over the last twelve months, from 3.0% to 3.3%, Cologne's vacancy rate remains the lowest in a comparison of the seven real estate strongholds, and just 9.0% of the 260,000 sqm available at short notice to prospective tenants is of premium quality. Around 84,000 sqm of new office space was built in 2023, with just under 12,000 sqm of this space still unlet at the time of completion.

With the supply of modern, high-quality space unable to satisfy demand, prime rent has risen continuously in recent years and is currently €32.50/sqm per month. The weighted average rent also increased and now reaches €18.97/sqm per month.



Office Market Areas with Rental Bands Cologne

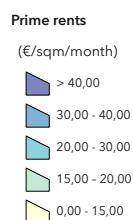


Prime rent in Munich rises to €50.00/sqm per month

Activity in the rental market in 2023 was dominated by small and medium-sized deals. This was evident from the conclusion of a single deal for 10,400 sqm by the owner-occupier Deutscher Gewerkschaftsbund Bezirk Bayern, concluded in the >10,000 sqm size category. In 2023, the average size of a letting was 727 sqm, compared with 1,038 sqm in 2022.

Once again, the City Centre occupied pole position among the submarkets with a share of 23% and a clear lead over the Periphery North and South submarkets, both with 12%.

Prime rents continued to rise in the final quarter of the year, reaching €50.00/sqm per month. At €23.66/sqm per month, the average rent was around €0.50/sqm per month lower than a year ago.



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