

## Q3 2011 compared to...

	Q2 11	Q3 10
Take-up	↑	↓
Vacancy	↓	↓
Prime rent	↑	↑
Prime yield	→	↓
Completions	↑	↑

## Q3 2011 from expert's point of view

Heiko Fischer,  
Head of Agency Hamburg:

"The current take-up result is especially affected by the indirect owner-occupation by the Hamburg city council in Wilhelmsburg. In the third quarter of 2010 the Überseequartier investor consortium redeemed a rental guarantee to the Hamburg city council, too. As that space volume is roughly equal to this year's transaction, the take-up result reflects the current sideways movement in the office letting market on the Alster and Elbe."

## OVERVIEW

### • Economy

The very successful recent past in the German economy has meant high capacity performance and full order books. As a result, the Consensus Forecast prognosis for 2011 is economic growth at the same rate as the growth in the gross domestic product (GDP) of 2.9%. However the repeated deterioration in the ifo business climate index by 1.2 index points in September indicates a reversal of the trend. Accordingly, a rise in GDP of just 1.0% is anticipated for 2012 (Consensus Forecast). With the continent's third largest container port, Hamburg is one of the most important goods transport hubs in central and northern Europe and has thus benefited from globalisation. Also the regional basic indicators promise future economic success despite the slowing down of trade which is in evidence. In the past year for example, the unemployment rate fell in September 2011 by 0.4% points to 7.4%. According to the economic magazine "Capital", the city on the Elbe has the best future economic prospects of any German city on account of its high purchasing power and the rise in population and economic performance and takes first place in its current city ranking.

### • Office market

The take-up result of 385,000 sq m in the Hamburg office market was around 4% higher than the previous year's result. The owner-occupied proportion was 14%. At year-end, the lowest level of completions for five years is expected at 192,000 sq m. Thus as only a very small volume of speculative space came onto the market, the vacancy volume reduced significantly and was at around 1.09 million sq m at the end of the third quarter. The vacancy rate fell accordingly to 8.2%. A reduction in the amount of unlet space is also anticipated for 2012. As the vacancy rate approaches the 8.0% mark, the prime rental level is again on the move. This has risen by 2.2% compared to the previous year to €23.00 /sq m/month, while in the same period the average rent has remained nearly stable at €13.95 /sq m/month.

### • Investment market

The transaction volume on the investment market exceeded the previous year's result by 55% at €1.53bn, albeit the market activity somewhat reduced in the third quarter at €353m on account of the scarcity of product in the core property segment. The prime rent (net initial yield) has been at 4.90% for the third consecutive quarter. Compared to the previous year this is a fall of 10 bps. At the end of the quarter, there was a premium of 289 bps compared to the very low reference yield offered by 10-year German government bonds.

### Office market key data

	Q3 2010	Q3 2011	Annual change
Stock, million sq m	13.18	13.24	+ 0.5%
Take-up, cum. 1,000 sq m	371.7	385	+ 3.6%
Vacancy, million sq m	1.19	1.09	- 8.4%
Vacancy rate, %	9.1	8.2	- 0.9%-Pts.
Prime rent, €/sq m/month	22.50	23.00	+ 2.2%
Prime yield, %	5.00	4.90	- 0.1%-Pts.
Capital value index (Q1 1986 = 100)	154	161	+ 4.5%

**TAKE-UP**

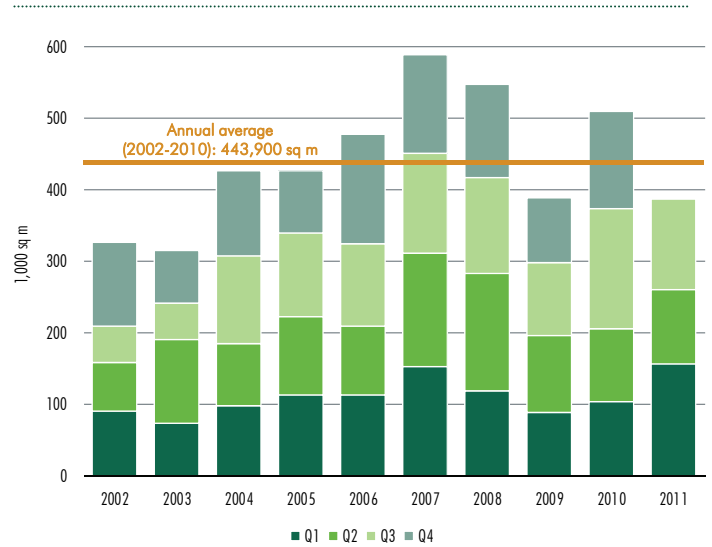
With a take-up of 102,100 sq m and a share of the total of around 26%, the City is still clearly the focus of demand. In particular in the medium-sized space category between 1,000 sq m and 4,000 sq m there were an above average number of leases concluded in the City – however there were no lettings in the size category above 4,000 sq m. Here there is only a very small number of large inter-connected premises of modern fitout quality available. Overall the proportion of prelets in project developments is on the increase on account of the increased scarcity of supply. Their share of the total take-up in the first nine months of 2011 was a remarkable 29%. Not least, on account of an owner-occupation by Hamburg city council in a new local authority centre in Wilhelmsburg, the Harburg/Süderelbe submarket had the second highest take-up volume of all Hamburg submarkets with a share of around 17%. The third strongest result with 42,600 sq m and a share of 11% of the total result was achieved by City-South. Here, the letting of 6,000sq m to a large German bank in the first quarter is still the largest single transaction.

Together with the public sector, the hanseatic city's traditionally strongest sector in terms of take-up - trade, publishing/media/advertising, legal advisors/chartered accountants and transport/traffic – contributed just under half of all take-up volume once again this year. Despite this, in 2011 it has once again been observed that the volume is spread widely over many sectors. In case of a possible weakening of the economy, compared to other cities the hanseatic city could once again benefit from the fact that its economy is less dominated by one particular segment, and is thus less affected by economic downturns in individual sectors.

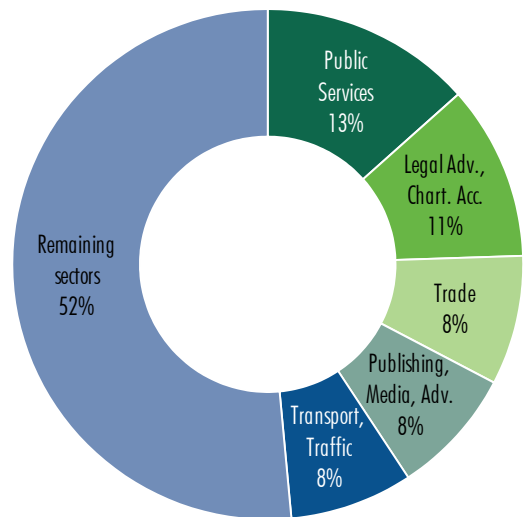
**VACANCY**

The robust take-up result and current low level of speculative new completions have meant that the vacancy volume has reduced by a full 10% compared to the previous year to around 1.09 million sq m. Thus the current vacancy rate of 8.2% is moving once again towards the 8.0% mark and will in all probability fall below this level in the next six months. The office space supply comprising vacant space, speculative completions in the next twelve months and space available for sublet was at 1.18 million sq m at the end of the third quarter. The total supply rate was thus at 8.9%. A lower supply rate was only registered in Hamburg at year-end 2002 and in the first quarter of 2008. Whilst on the demand side, around 68% of the take-up in the current year is of space with the best quality fitout (so-called A-grade), just under half of the office space supply is of average or older fitout quality (B/C-grade). Thus there is also a harder to let structural vacancy in Hamburg, in particular in the peripheral locations.

**Office space take-up**

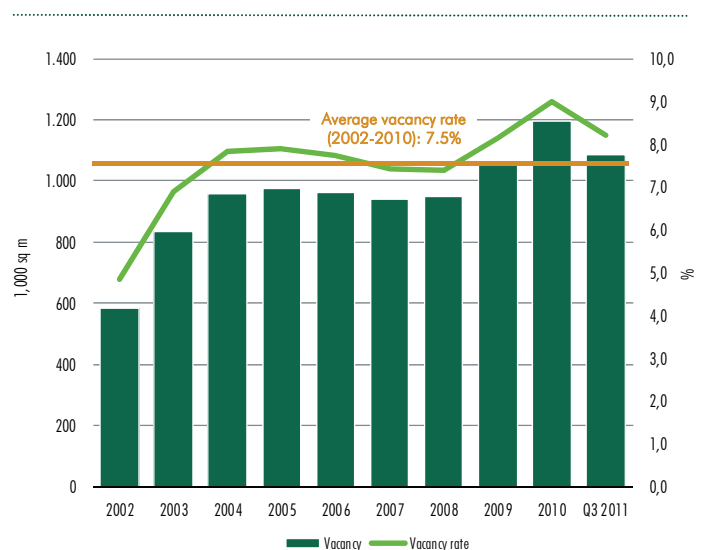


**Office space take-up (cumulated, %) by sectors\* -Top 5-**

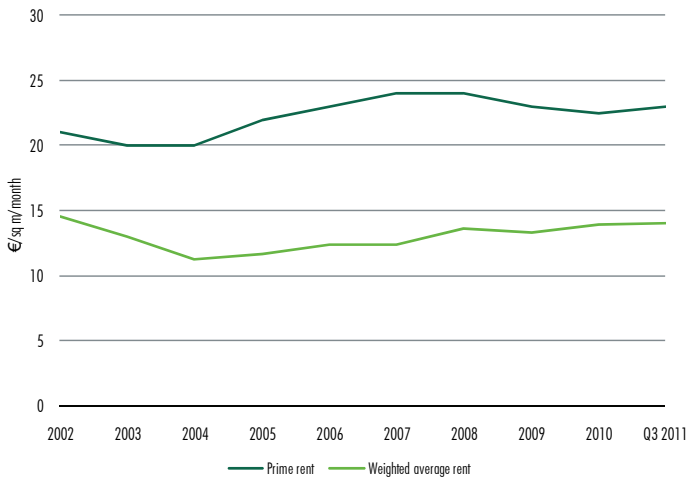


\* in total 20 sectors

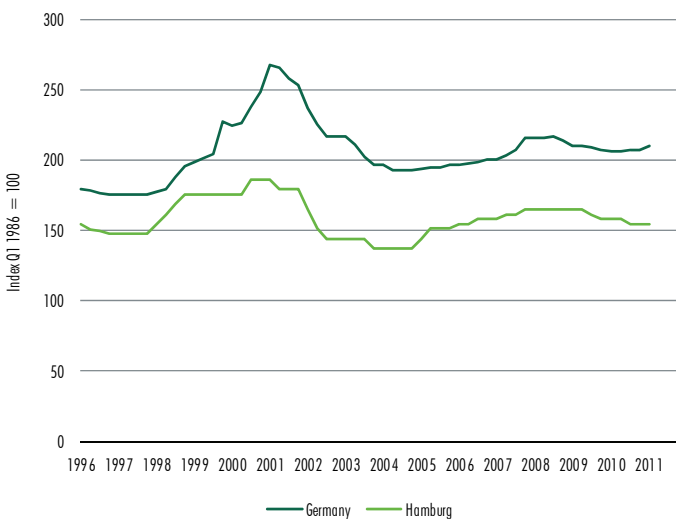
**Office space vacancy**



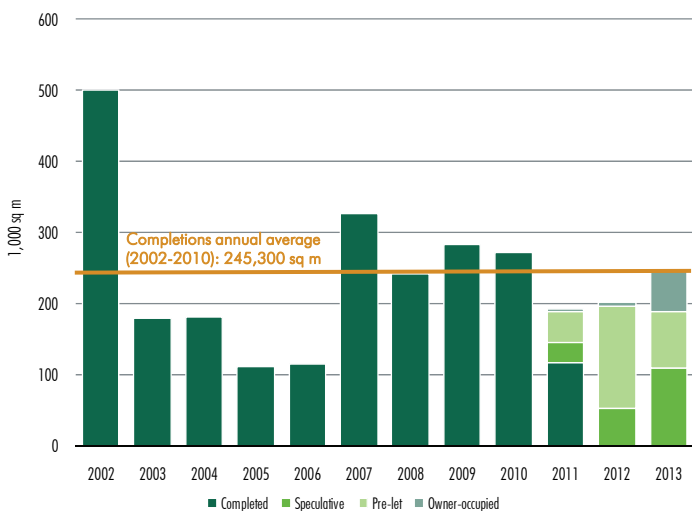
Prime rent/Weighted average rent



Rent index



Office space future supply



RENTS

On account of the increased scarcity of supply, in particular of space in the high specification fitout category, landlords are beginning to achieve higher rental prices again. After twelve months of rental price stability in the prime segment, the prime rental level has now risen by 2.2% to €23.00 /sq m/month. This is achievable in the best locations in the City in buildings with the best modern fitout specification, in particular in new-build space or in refurbished space. Prime rents have also risen in the submarkets HafenCity to €22.50 /sq m/month, St. Pauli/Altona to €19.50 /sq m/month, City-East/St. Georg to €15.50 /sq m/month, Eppendorf to €14.00 /sq m/month and Stellingen/Lokstedt/Eimsbüttel to €13.00 /sq m/month.

Also the weighted average rent of the whole market has risen by 2.9% to €13.95 /sq m/month. Several highly priced lettings in HafenCity meant that the highest average rent of €18.01 /sq m/month was achieved there. Equally high rents were achieved in the Westlicher Hafenrand submarket with €17.86 /sq m/month and the City with €17.57 /sq m/month. Whilst the CBRE rental price index rose by 1.5% compared to the previous year, the figure for Hamburg was 2.2% above the previous year's figure. In particular the lowest vacancy rate amongst the top 5 German office markets has put rents under pressure.

PIPELINE

In 2011, it is anticipated that the completion volume will be the lowest for five years. In addition the proportion of space, which has not yet been taken-up by a tenant or owner-occupier is significantly lower than in the past few years. Also the speculative completion volume in the next twelve months is also at the lowest level since 2005 at around 74,000 sq m. Of the 525,000 sq m expected by the end of 2013, around 65% are currently already prelet or agreed with an owner-occupier. 184,000 sq m or 35% of the total volume relate to refurbishment of existing space.

Speculative completions continue to be concentrated mainly on locations with consistently high levels of leasing activity such as the City submarket or those with very low vacancy rates such as the Außenalster submarket. The reason for the negligible level of speculative office new-build other than in these locations is predominantly the continuing risk-averse lending policy of the banks. High levels of preletting or building for an owner-occupier are pre-requisites for project financing. In the next few months, it is unlikely that there will be easier access to loans on account of the unsolved national debt crises and the continuing uncertainty in the international finance markets.

**PIPELINE BY SUBMARKETS**

Up to the end of 2013, the greatest space volumes will be completed in the submarkets City with 124,000 sq m, Hafencity with around 82,000 sq m and Harburg/Süderelbe with around 77,000 sq m. The Hamburg office market is currently characterised by a number of large-scale office refurbishments. Examples are the Emporio-Quartier and the Alte Oberpostdirektion in the City, the new Allianz headquarters in City-North and the refurbishment of the Mundsburg Office Tower in Winterhude/Barmbek. The largest new-build projects in 2012 are expected to be the Tanzende Türme with around 26,500 sq m in St. Pauli. It is likely that in 2013 the new-build of the local authority centre in Wilhelmsburg with around 45,000 sq m will follow as well as the Hammerbrookhöfe with around 22,500 sq m in City-South, which will be used as the Hamburg headquarters of Deutsche Bahn. It is expected that the redevelopment of the former Spiegel site and numerous projects in the Nikolai-Quartier will have a positive effect on the city centre area.

**INVESTMENT**

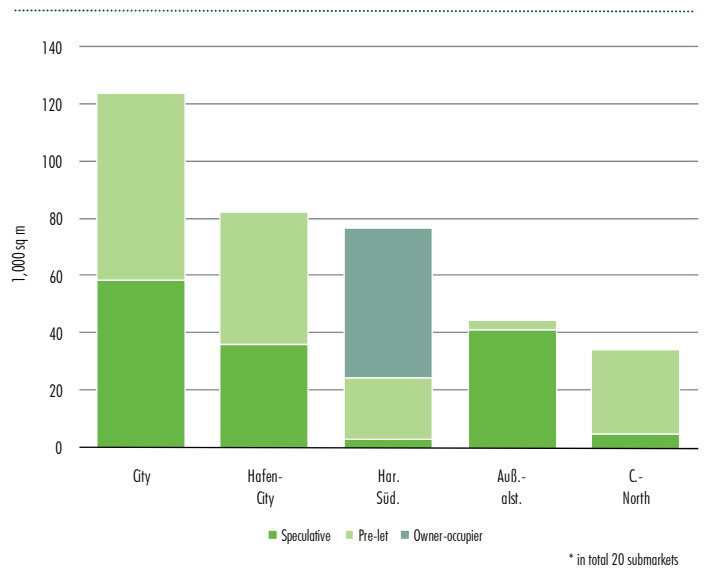
After the enormously successful first half year in terms of turnover, the dynamic in Hamburg's investment market has somewhat reduced with a transaction volume of around €353m in the third quarter of 2011. Nevertheless, the result of €1.53bn in the first nine months significantly exceeded that of the same period of the previous year by 55%. The scarcity of supply of strongly demanded core products continues to have a limiting effect on the turnover volume. The dominance of equity rich German investors continues: open-ended property funds and special funds as well as closed-ended funds and private investors achieved a share of 73% of the transaction volume. With 47% each of the total volume within the city boundary of Hamburg, investment was almost exclusively in retail and office property. There have been more than twice the number of transactions with a lot size of over €50m compared to the previous year. Above all, the sale of an 85% share of two property companies of the Hamburger Meile to a Real I. S. Gruppe special fund and the sale of a Karstadt department store on Mönckebergstraße to a Quantum-Gruppe special fund were major factors. As soon as project developments in good locations have achieved a substantial prelet, these come into the focus of the continuing high demand for core investments. By far the strongest seller group was correspondingly the project developers with around 41%. On account of the continuing high demand combined with scarcity of supply of core properties, prime yields have remained stable at a level of 4.90% (offices), 4.40% (retail) and 6.50% (warehouse/logistics).

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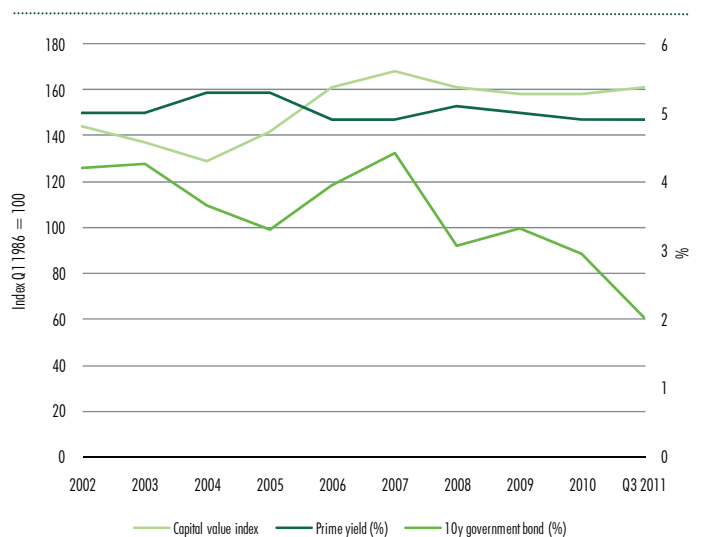
**FORECAST**

CBRE anticipates a continuing market dynamic also for the months of October to December 2011 and foresees space take-up of just above 500,000 sq m by the end of the year. The noticeable cooling of the German economic performance will inevitably have an effect also on the Hamburg office letting market. By contrast to the last year of recession in 2009, lower levels of take-up would result in less growth in vacancy and a more robust rental level on account of a significantly lower level of speculative future completions. Should there be no improved access to project financing in the medium-term, structural vacancy is expected to continue on account of the numerous obsolescent office buildings in less sought-after secondary and peripheral locations.

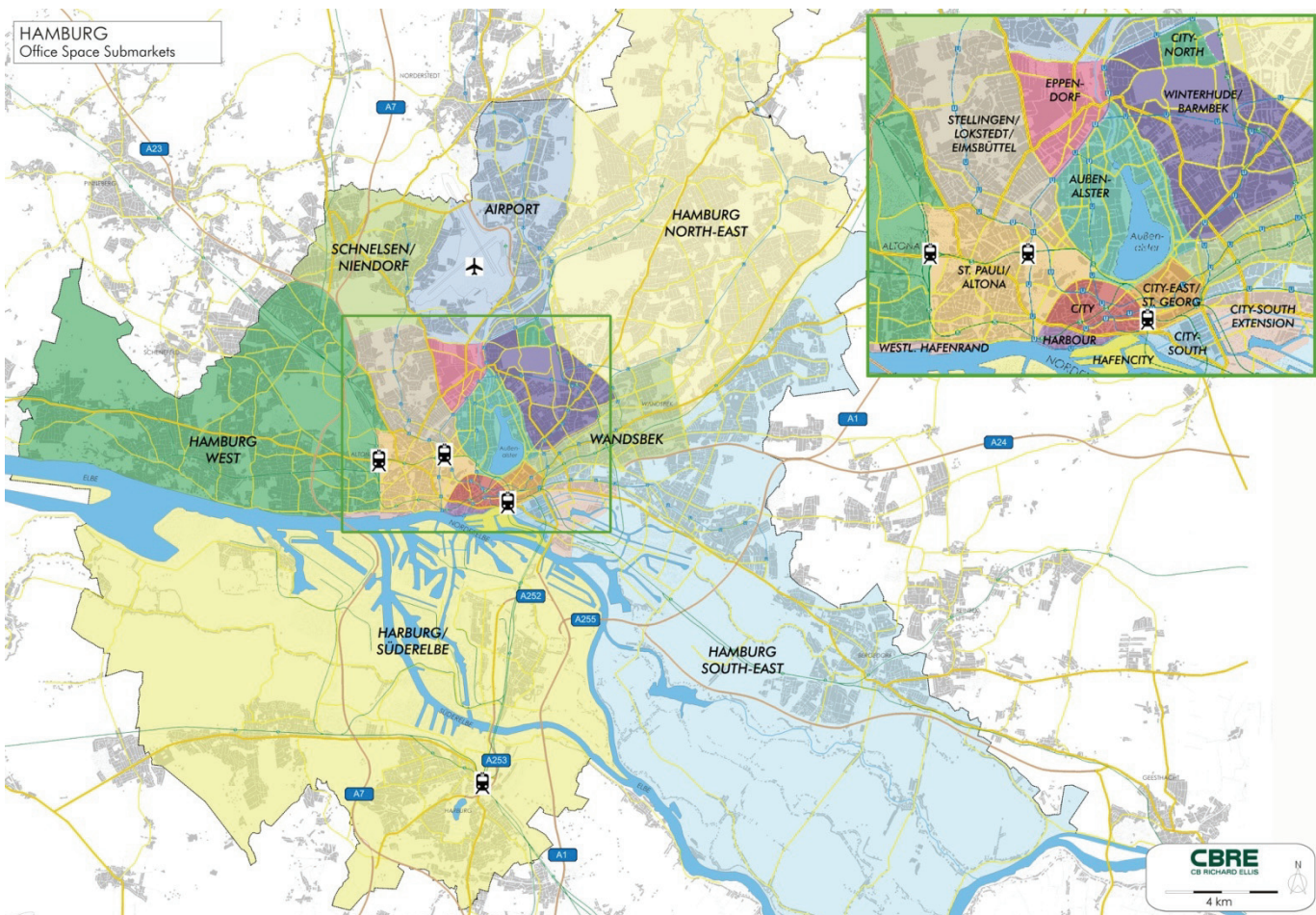
Office space future supply (Q4 2011-2013) by submarkets\* -Top 5-



Prime yield, capital value and benchmark yield



Submarket	Cumulated Take-up sq m	Future supply Q4 2011 – 2013 sq m	Vacancy rate %	Rental band €/sq m/month	Weighted average rent €/sq m/month
Außenalster	14,400	44,600	1.5	10.00 – 18.50	16.54
City	102,100	124,000	8.2	10.00 – 23.00	17.57
City-North	9,000	34,400	2.3	5.50 – 12.00	n/a
City-East/St. Georg	12,000	10,200	6.5	8.00 – 15.50	13.73
City-South	42,600	22,500	16.8	7.00 – 14.00	11.61
City-South-Extension	1,000	3,000	14.1	5.50 – 11.00	9.31
Eppendorf	5,000	0	7.3	8.00 – 14.00	12.80
Airport	9,400	500	6.0	6.50 – 12.50	8.07
Harbour	10,600	24,900	11.8	9.00 – 20.50	14.82
HafenCity	29,800	82,400	13.6	13.00 – 22.50	18.01
Hamburg-North/East	2,800	27,400	5.2	9.00 – 12.00	n/a
Hamburg-South/East	8,900	2,200	9.2	6.00 – 11.00	7.80
Hamburg-West	23,200	19,000	7.4	6.00 – 14.00	11.79
Harburg/Süderelbe	65,200	76,900	3.9	6.50 – 12.50	11.19
Stellingen/Lokstedt/Eimsbüttel	0	0	5.2	7.00 – 12.50	n/a
Schnelsen/Niendorf	6,900	5,700	3.0	6.50 – 13.00	14.06
St. Pauli/Altona	14,300	31,800	5.4	8.00 – 19.50	13.86
Wandsbek	6,700	0	10.9	6.00 – 12.00	9.79
Westl. Hafensrand	9,900	0	5.5	12.00 – 20.00	17.86
Winterhude/Barmbek	11,200	15,400	6.4	8.00 – 13.00	10.81
<b>TOTAL</b>	<b>385,000</b>	<b>524,900</b>	<b>8.2</b>	<b>5.50 – 23.00</b>	<b>13.95</b>



**DEFINITIONS****Take-up**

This is the sum of all office space that is let, leased, or sold to an owner-occupier in a defined (sub) market and a defined period. Take-up also includes sub-lets of leased premises or owner-occupied space. Lease renewals are registered as space take-up if the office space let is larger than the space previously occupied. Only the additional space in an existing location will be added to take-up.

**Vacancy**

This is the sum of all completed office space which, at the time the information was registered, was not occupied or was offered for let or sale (for the purposes of further use) and which may be occupied within three months. Subletting is not considered in vacancy figures and is registered separately.

**Supply**

Supply includes the sum of all office space on offer, which is intended for marketing at the time of observation (each quarter's end) and which is still available. This includes vacant space, space to sublet and speculative completions over the next 12 months.

**Prime rent**

Prime rents are the highest sustainable nominal rent in €/sq m/month achieved in prime locations, and top-quality buildings with top-quality fit outs. These are based as much on lease transactions concluded within the defined period as on the market overview of the local letting department.

**Weighted average rent**

The weighted average rent represents the weighted average rent for space let for a defined region. It is based on all lease contracts concluded during a year. In principle, at least ten lease contracts have to be concluded in the relevant market and reporting period, in order to be used as a base.

For lettings to businesses that can deduct input tax, rents are exclusive of statutory value-added-tax. For lettings to value-added-tax exempt businesses, the rent may include a payment of a variable amount to compensate for the non-deductible input tax paid by the lessor for services provided in the construction or fit out of the demised premises.

**Prime yield**

The prime yield (net initial yield) is the ratio between initially annual net rental income (rent less non-recoverable costs) and the total amount invested (purchase price plus purchasers' on-costs = gross purchase price), expressed as a percentage figure, achievable in the relevant prime location in a building with first-class fit out, fully let according to market conditions. It is based both on sale & purchase contracts concluded during a period and also on the market overview of the local investment department.

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