# pbbIX
# Office Property Market Germany
## 2024 | Q 4

DEUTSCHE
PFANDBRIEFBANK

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# Overview

The **upward trend** observed since the second quarter of 2024 remained intact at the end of 2024. The pbbIX continued to rise tentatively in the 4th quarter of 2024, reaching a value of -1.86. The year 2024 as a whole was characterised by **a shrinking economy**. Nevertheless, **demand for office space increased moderately over the course of the year**, but remained at a low level. Although take-up on the investment markets doubled compared to the previous quarter, the total investment volume this year remained just as low as in the previous year. In the prime segment, initial yields remained stable over the course of the year, capital values only rose slightly due to the increase in rents.

As in the previous quarters, the economy as a whole also contracted at the end of the year. In the 4th quarter, **economic output fell** by 0.2 % compared to the previous quarter. As a result, the full year 2024 ended with a decline in GDP of the same magnitude. Despite declines in key interest rates since mid-2024, the recessionary economic trend continues to hamper the office property markets. Uncertainty regarding economic and inflation trends continues, meaning that **cautious behaviour on the office markets will continue in the short term**.

The latest sentiment surveys in the German economy initially point to a **continued economic slowdown**. According to the ifo Business Climate Index, companies assessed the current situation in January as slightly better than in the previous month, but expectations have deteriorated further since the autumn months. Scepticism increased, particularly among companies in the manufacturing and construction sectors.

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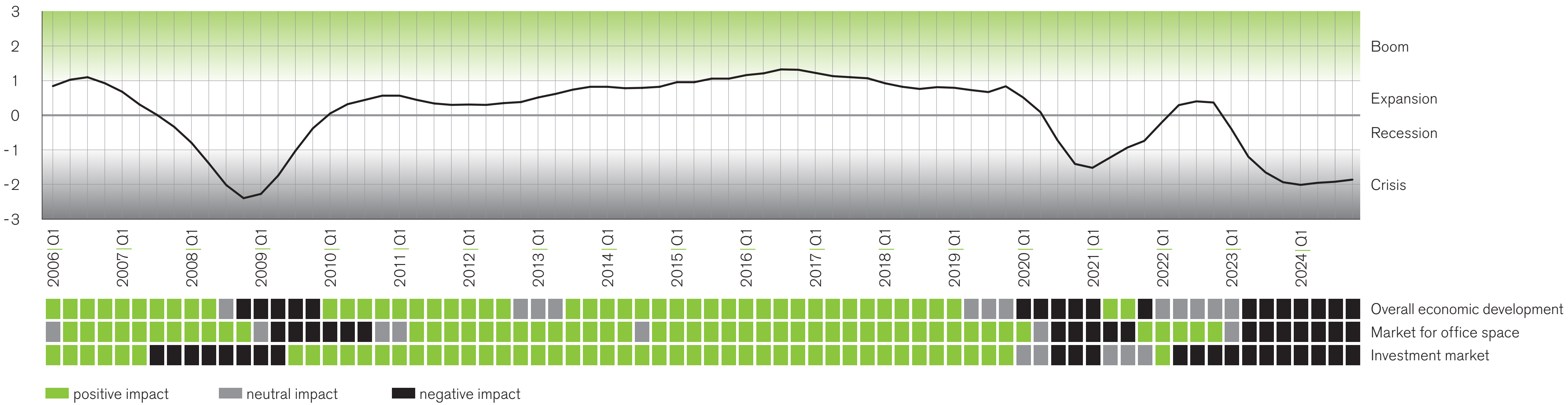

# Overall economic outlook

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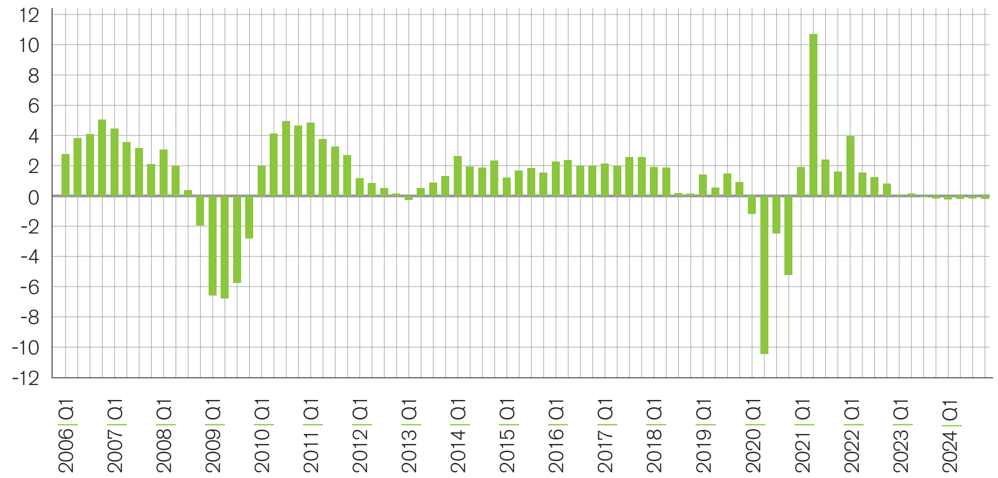
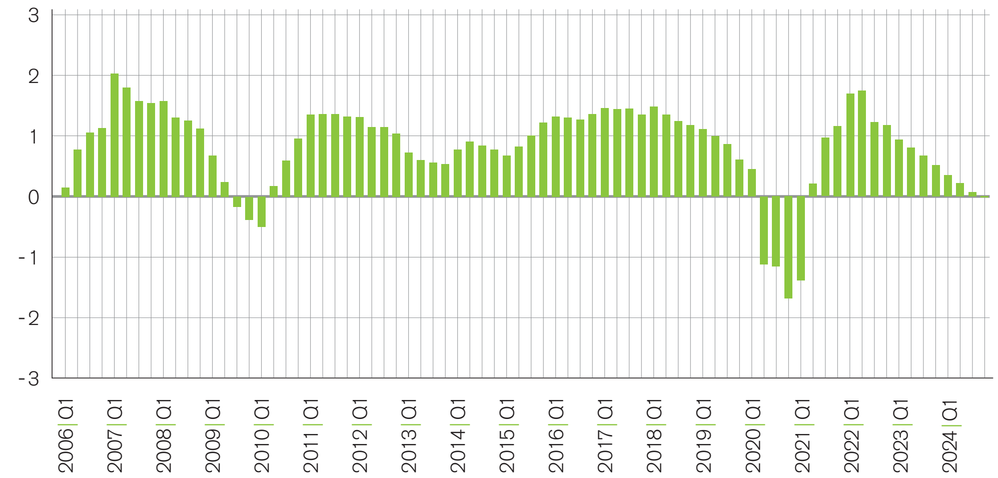
The German economy is **in recession** for the **second year in a row** with slightly negative growth rates. Real economic output fell by -0.2 % in the 4th quarter of 2024 compared to the previous quarter. The German economy therefore ended 2024 as a whole, which was characterised by economic and structural challenges, down 0.2 % on the previous year. While private and government consumer spending increased according to preliminary findings, exports were significantly lower than in the previous quarter. Factors weighing on the economy include increasing competition for German exports in key sales markets, high energy costs, persistently high interest rates and an uncertain economic outlook.

After the **inflation rate** was mostly below the ECB target of 2.0 % in autumn, it **rose to 2.6 %** in December 2024. Compared to the previous year, consumer prices rose by 2.2 % in 2024 as a whole. The expected weak economic growth over the next twelve months and the sluggish labour market mean that no significant improvement in the economic situation is expected for the current year. The price increase will remain just above 2 % until the end of 2025, which will benefit the purchasing power of private households and raise hopes of an increase in private consumer spending. Compared to the previous year, the number of people in employment fell by around 5,000. In contrast, the number of people in employment grew by 237,000 in 2023. At 6.0 % at the end of 2024, the unemployment rate remains at a moderate level, but is expected to increase over the course of 2025.

**Real gross domestic product** | year-on-year change in %




**Working population** | year-on-year change in %



# Market for office space

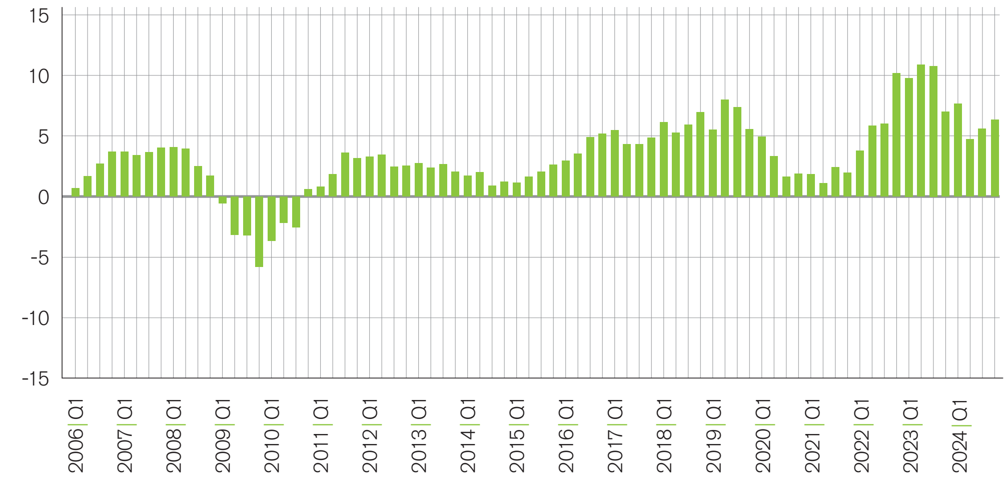
The stagnating economy continues to have an impact on the office space markets of the BIG 7, which are suffering from **weak demand**. At around 690,000 sqm, letting turnover in the 4th quarter was down on the previous quarter (730,000 sqm). Despite the lack of economic tailwind, 2.7 million sqm was let over the year as a whole, 150,000 sqm (+6%) more than in the previous year. The public sector was the main driver of demand for space. However, the current take-up result is still 23% below the 10-year average of 3.5 million sqm. In the course of an expected slow economic recovery, **a moderate increase in office space take-up** can be expected over the course of 2025.

With a completion volume of 1.6 million sqm, **new construction activity was around a quarter higher than in the previous year**. In conjunction with the below-average take-up, **the vacancy rate increased noticeably** and stood at 6.8% on a weighted average across all BIG 7 markets at the end of the year, 100 basis points higher than twelve months previously. This is also the highest vacancy rate since the third quarter of 2015. In terms of the individual markets, vacancy rates range from 4.3% in Cologne to 10.6% in Düsseldorf.

In line with the **demand for high-quality space**, prime rents **continued to** trend **upwards**. In the 4th quarter of 2024, they were over 6% higher than a year earlier. Average rents also rose at a slower pace. Due to the strong demand for premium space in top locations, prime rents remain under upward pressure.

**Office space vacancies (BIG 7)** | in % of the portfolio


**Top rents (BIG 7)** | year-on-year change in %



# Investment market

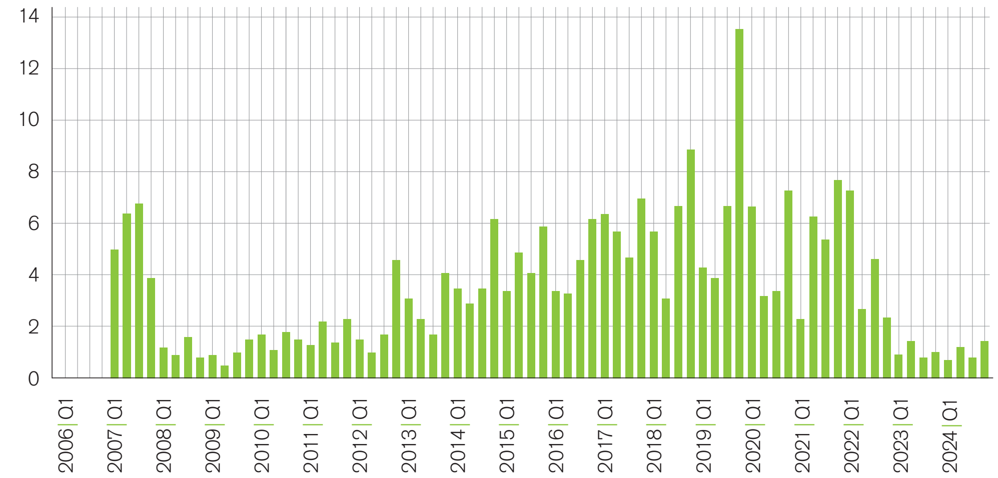
**Cash inflows** on the BIG 7 office investment markets **increased slightly at a low level** in the 4th quarter of 2024. Nevertheless, the recessionary trend on the office investment markets continued unabated. Office properties worth just under €1.4 billion were acquired in the BIG 7 markets in the 4th quarter. Over 2024 as a whole, office investments totalled €4.1 billion € and were therefore at the same level as in the previous year. The last time there was a similarly low inflow of funds was in the crisis year 2009 with around € 3.8 billion. By comparison, the average annual turnover over the last ten years was around €19 billion.

The ECB's key interest rate has been cut by 135 basis points since June 2024. Nevertheless, the **recovery on the investment markets is still very tentative** under the conditions of still relatively high lending rates, high construction costs, weak office property markets and a stagnating economy. **Prime yields** in the office sector have shown a **stable sideways** trend **since the beginning of 2024**. The yield curve has probably peaked in this cycle. The net initial yield has risen by 7 basis points in the last 12 months and averages 4.28 % in the BIG 7 office markets. The yield spread compared to the current yield for 10-year German government bonds was 205 basis points at the end of 2024, after the minimum in the current cycle was reached in the 4th quarter of 2022 with a spread of 112 basis points.

The structural problems on the office markets are compounded by the uncertainty of economic development, meaning that any **recovery** on the investment markets over the next few quarters will **only be moderate and very crisis-prone**.

**Net initial yield (BIG 7)** | in %


**Investment volume (BIG 7)** | in € billion



# BIG 7

## BERLIN

In 2024, take-up on the Berlin office market totalled 590 thousand sqm. Take-up thus grew by 12 % compared to the previous year. Nevertheless, the 10-year average was missed by 27 %. In the context of a 55 % higher volume of completions, the below-average marketing of space is causing the vacancy rate to rise. This rose by 130 basis points to 6.7 % over the year as a whole. Prime rents rose to 46€ per sqm at the end of the year, 4.5 % higher than at the end of 2023. On the investment market, cash inflows totalled around € 900 million last year, 30 % less than the previous year and the lowest result since the crisis year of 2009. The net initial yield for prime properties remained stable at 4.2 % over the course of 2024.

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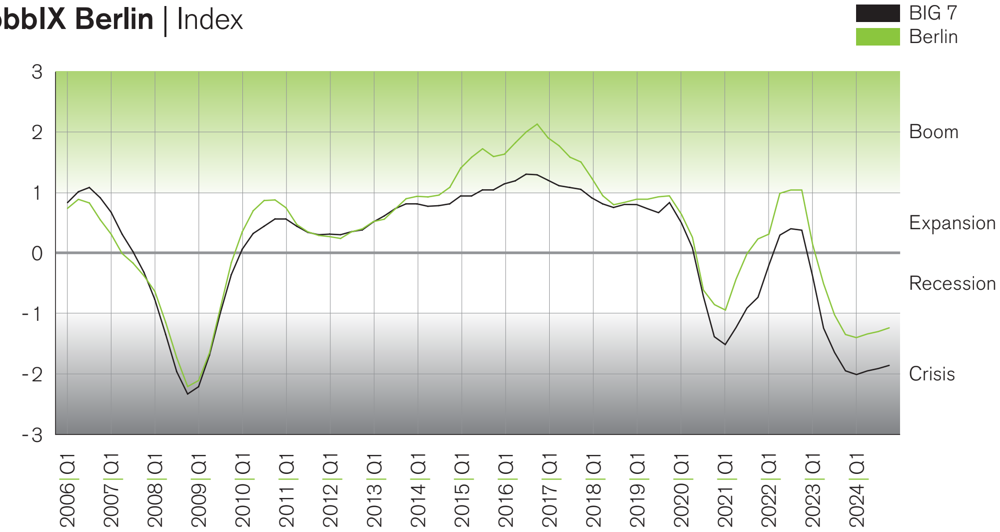


## HAMBURG

The Hamburg office market virtually stood still in 2024. With annual take-up of 430 thousand sqm, it fell 5 % short of the previous year's result. At the end of the year, take-up performance remained constant compared to the previous quarter. Public administration contracts were the biggest driver of take-up, accounting for 26 % of total take-up. Despite a 50 % reduction in new construction activity, the vacancy rate had risen to 5.3 % by the end of the year. This represents a year-on-year increase of 50 basis points. The prime rent increased by around 4 % to € 36 per sqm compared to the end of 2023 Office properties worth € 840 million changed hands on the investment market last year. This represents an increase of 15 % compared to the previous year. The net initial yield remained constant at 4.25 % in the 4th quarter.

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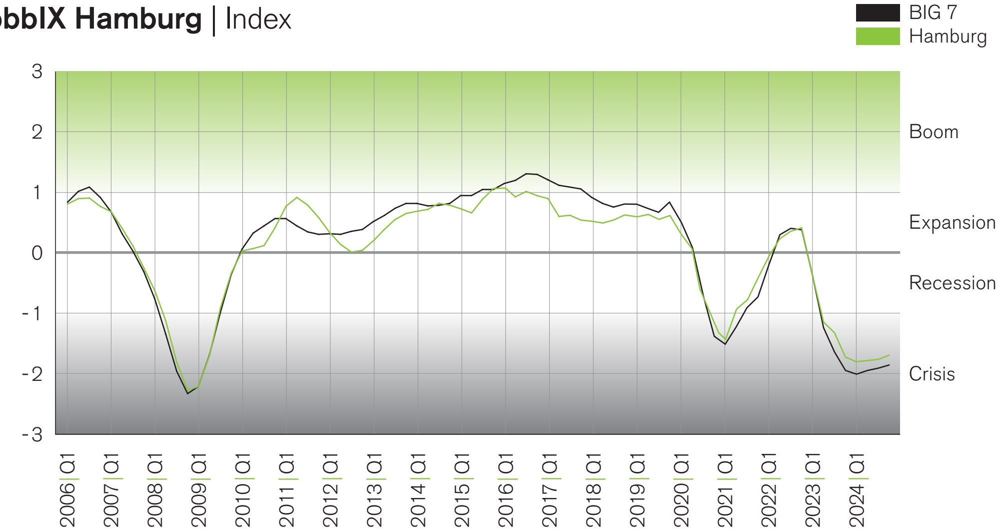

# BIG 7

## MUNICH

Demand for space increased significantly in Munich. A total of 620,000 sqm was taken up in 2024, 29 % more than in the previous year. The strongest sectors in terms of take-up were industrial administration and business-related services with a total share of almost 40 %. The vacancy rate rose by 120 basis points year-on-year to currently 6.4 %. Demand for high-quality space in prime locations caused prime rents to rise by 9 % and are currently at the highest level in Germany at € 54.50 per sqm. Investors were very cautious on the investment market last year. With a total annual volume of only € 550 million, there was a 22 % drop compared to the already very weak previous year. The net initial yield for first-class properties remained at 4.15 % in the 4th quarter

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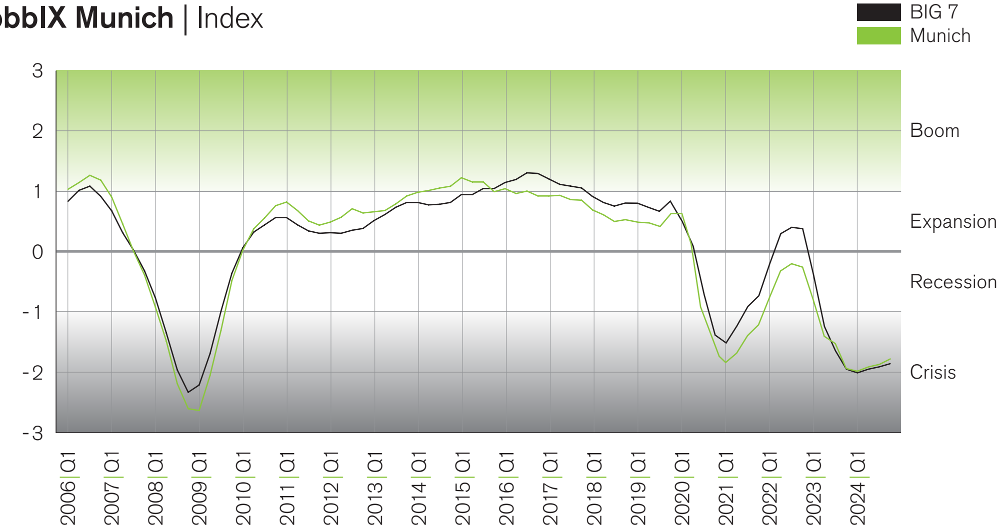


## COLOGNE

Demand for office space totalled around 230 thousand sqm for the year as a whole, an increase of 10 % on the previous year. Nevertheless, this take-up result was around 25 % below the 10-year average. With new construction remaining constant, the below-average demand is now having an impact on the vacancy rate, which is comparatively very low at 4.3 %, but has risen by 100 basis points over the course of the year. The prime rent remained stable compared to the previous quarter at € 32.50 per sqm. The situation on Cologne's office investment market remains unfavourable. Although the inflow of funds in 2024 increased by 45 % compared to the previous year, at around €470 million it remained around 60 % below the 10-year average. The net initial yield for first-class properties remained unchanged at 4.55 % in the 4th quarter.

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# BIG 7

## FRANKFURT

Office space take-up in Frankfurt fell further in 2024 to 370,000 sqm. 8% less space was contracted than in the previous year. The decline in a 10-year comparison was even around 25%. The upturn in new construction and the lower absorption of space contributed to the further increase in vacancies. At the end of the year, the vacancy rate was 9.7%, 90 basis points higher than at the end of 2023. Prime rents continued to trend upwards and amounted to €50 per sqm. As far as the investment market is concerned, the situation has picked up somewhat, but only at a low level. In total, around €820 million was invested in office properties in 2024, compared to €360 million in the previous year. In 2022, investment turnover still amounted to €3.2 billion. The net initial yield for first-class properties in prime locations remained constant at 4.6% in the 4th quarter.

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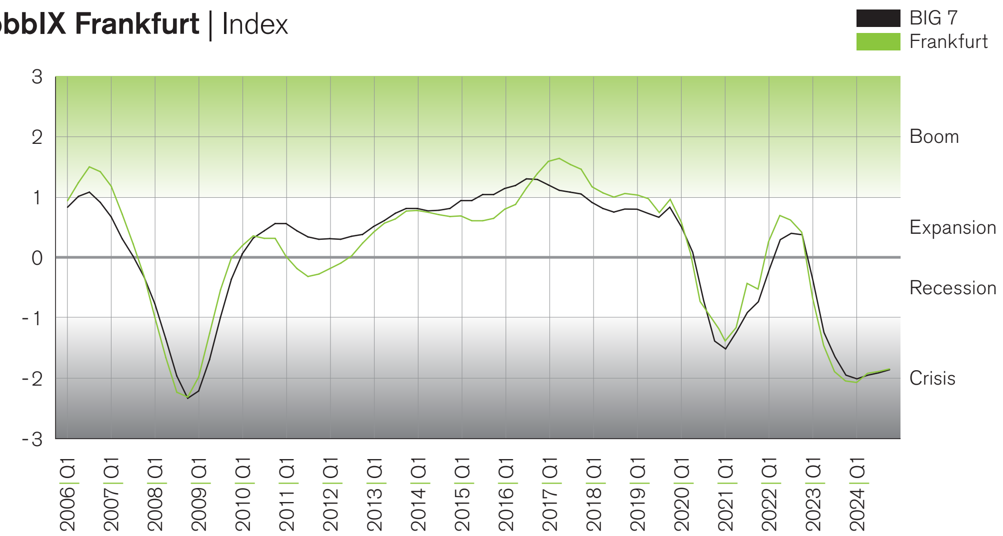


## DUSSELDORF

Demand for office space in Düsseldorf continued to fall in 2024. At 250,000 sqm, around 16% less space was taken up than in the previous year, the lowest take-up since the crisis year of 2009 (240,000 sqm). The vacancy rate rose by 90 basis points within a year and was relatively high at 10.6% at the end of the year. This is the highest vacancy rate since Q4/2014. The prime rent rose by €3.50 over the course of the year to currently €43.50 per sqm. The inflow of funds on the investment market in 2024 remained at the very low level of the previous year with a turnover of €300 million. The take-up result thus remained 85% below the 10-year average. In Dusseldorf, the net initial yield has remained at 4.55% for four quarters.

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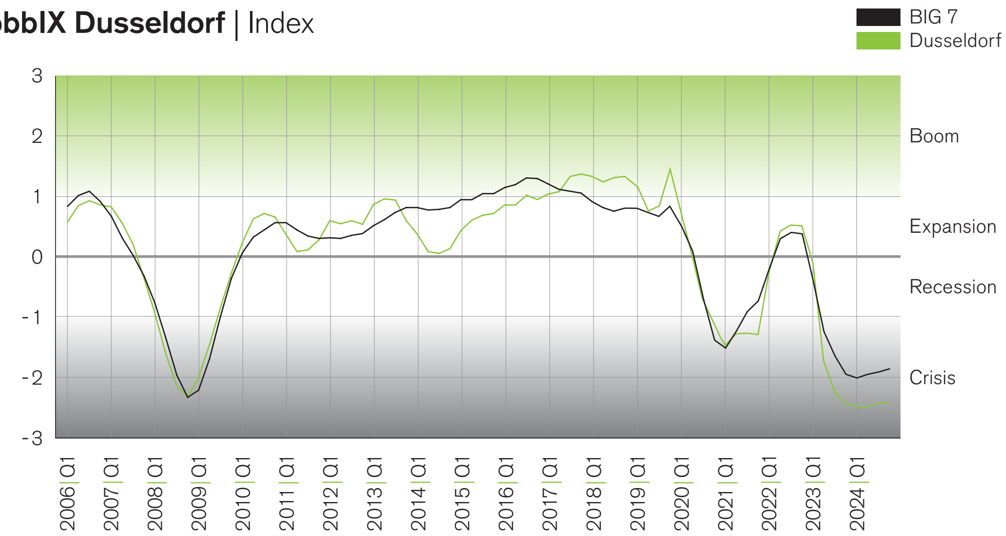

# BIG 7

## STUTTGART

The Stuttgart office market recorded higher demand for space last year. The letting performance totalled around 200,000 sqm, compared to around 160,000 sqm in the previous year. A total of 40,000 sqm was newly taken up in 2024, which corresponds to a year-on-year decrease of 50 %. In line with the general trend, vacancy rates continued to rise, but remain comparatively low at 5.1 %. At the end of 2023, the vacancy rate was 4.0 %. Rents rose by € 2 in the last 12 months and currently peak at € 37 per sqm. On the investment market, cash inflows in 2024 fell to their lowest level since 2011 at around € 240 million. The net initial yield for first-class properties remained stable compared to the previous quarter at 4.25 %.

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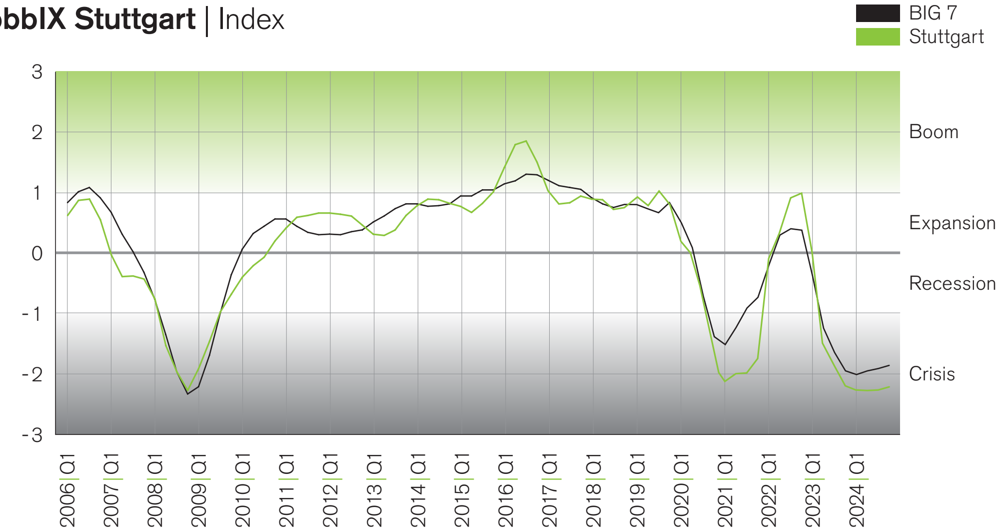

# About the pbbIX real estate index

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## SCOPE AND METHODOLOGY

As the last two decades have shown very clearly, the development of real estate markets is not a continuous trend that is free of disruption – instead, these markets are characterised by significant cyclical fluctuations. The pbbIX index family tracks economic developments on Germany's key office property markets. The index family comprises a total of eight indices: seven individual indices for the office real estate markets in Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich and Stuttgart, plus a composite index which tracks overall economic development of the BIG 7 markets.

The indices are based on the results of a dynamic factor model, which brings together eleven variables, using time series to extract the key driving forces for economic trends of office property markets. Specifically, these variables relate to macroeconomic developments, the rental market, and the investment market across the seven office property markets covered. As a preparatory step for the factor analysis, the various market-related indicators are aggregated to form a single market indicator that measures overall development (for example, vacancies or new construction activity). The data list shown below sets out the indicators which were used for the dynamic factor analysis.

Over and above the office real estate market index, the presentation contains assessments regarding the components of 'macroeconomic developments', 'market for office space', and 'market for office investments'. The directional impact of these components on the composite indicator is colour-coded: GREEN indicates a positive, BLACK a negative and GREY a neutral impact.

## DATA LIST OF THE DYNAMIC FACTOR MODEL

**Overall economic development**
- Real gross domestic product (YOY change in %)
- Workforce in the BIG 7 markets (YOY change in %)
- Consumer prices (YOY change in %)
- Current yield (Umlaufrendite) for public-sector bonds with a minimum remaining term of 10 years (in %)

**Rental market**
- Completed office and administration buildings (in sqm of usable space in the BIG 7 markets)
- Marketing volume (in sqm of rental space in the BIG 7 markets)
- Vacancies (in % of gross available area in the BIG 7 markets)
- Top rent (in € per sqm for the BIG 7 markets)
- Average rent (in € per sqm for the BIG 7 markets)

**Investment market**
- Initial net yield (in % for the BIG 7 markets)
- Inflow of funds (€ million)