

Vacancy Forecast

Impact of Covid-19 on TOP 7 Office Markets

April 2021
Colliers

Agenda

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- 04 Forecast for each location



Impact of the Corona pandemic on the TOP 7 office markets

Executive Summary

No breaks in market developments due to work from home (WFH) impact

Initial situation: The pandemic has been affecting our daily lives for just under a year. After an initial lockdown in the spring of 2020 and a summer with few restrictions, stricter infection control measures have been in effect again since mid-November 2020. In March, a phased plan with opening perspectives was adopted, which were quickly being called into question in view of a "third wave" currently taking place. Many office employees therefore continue to work remotely.

Methodology: The vacancy forecast is based on forecasts of future expected take-up in the seven office centers in Germany. In a base scenario, a slight reduction in office space per employee is assumed for new leases across all locations. On the supply side, currently foreseeable completions and departures in the TOP 7 are taken into account, which also reflect the reactions of property developers to the changed market situation.

Colliers forecast: We assume that higher WFH ratios will lead to lower office space per employee in some of the new leases, but that the share of general space (including retreat rooms, conference rooms, etc.) will increase on the other hand. The bottom line is that office space per employee will only decline slightly. In the TOP 7 cities, this does not mean a structural break in the previous trend, even though vacancy rates at most locations will be higher at the end of the period under review than before the crisis. This will be helped by the continued positive development in office employment, albeit at a slower pace, and a decline in speculative new construction activity. For the end of 2021, we forecast vacancy rates of 2.5% (Berlin) to 8.8% (Frankfurt). In 2023/2024, under the economic and structural influence of the Covid-19 crisis, as we assess them today, vacancy rates are expected to peak. In the TOP 7 markets, where the supply of space has been very tight for years, an increasing WFH impact could provide relief in line with the market as the economic consequences of Covid-19 fade.

Chapter 1

Methodology
Vacancy Forecast



Methodology and working hypotheses

Forecast Model

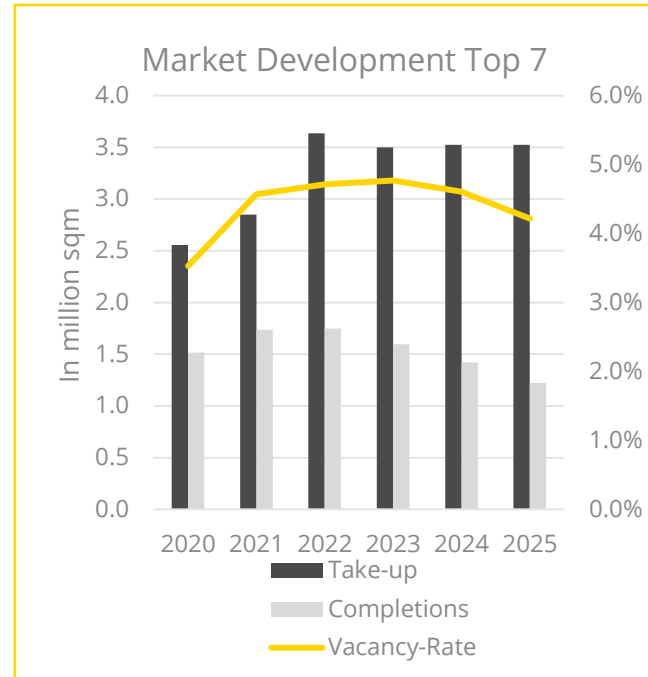
Covid-related vacancy development based on cyclical and WFH impact

Economic impact of the Covid-19 crisis

Impact demand for office space (absorption)

Modeling at individual market level TOP 7

Impact completions



Modeling of the years 2021 to 2025/general trends

- Overcoming Covid-related decline in demand as of 2022
- Crisis-induced reduction in speculative supply expansion from 2022 onwards

Impact WFH

No impact

Vacancy Scenario 1

Moderate WFH impact

Vacancy Scenario 2

Stronger WFH impact

Vacancy Scenario 3

Reference scenario

- Pure cyclical impact on the office letting market
- Assumption: no reduction in space due to WFH

Base scenario

- Effect with an initially lower impact from 2022 onwards
- Assumption: **5%** less office space per employee will be needed in the medium term

Stress scenario

- Effect with an initially lower impact from 2022 onwards
- Assumption: **10%** less office space per employee will be needed in the medium term

Changing space requirements in offices

COVID-19 Experience

WORK AREAS

- WFH 1-2 days a week
- Introduction of clean desk for increased cleanliness
- Sharing concepts support distance regulations
- New table size standard (160x80 cm vs. 120x80 cm)

INTERACTION AREAS

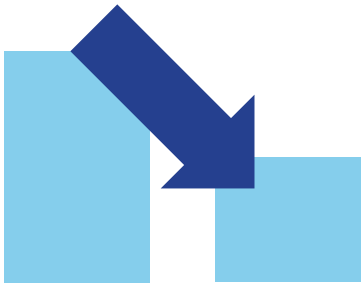
- Compliance with legal minimum distances and hygienic rules
- More retreats for digital exchange
- Attractive, inviting interaction spaces for team building

TRAFFIC AREAS

- Avoidance of "bottle neck" situation in front of elevators, staircases
- Redefinition of hallway usage
- New wayfinding concepts and controlled circulation in buildings

GENERAL AREAS

- Changed concept for public and semi-public areas
- Redesign for e.g. entrances, lobbies, waiting areas, conference zones, canteen, showrooms etc.



Requirements for rental space are almost identical - but the layout and equipment have changed!



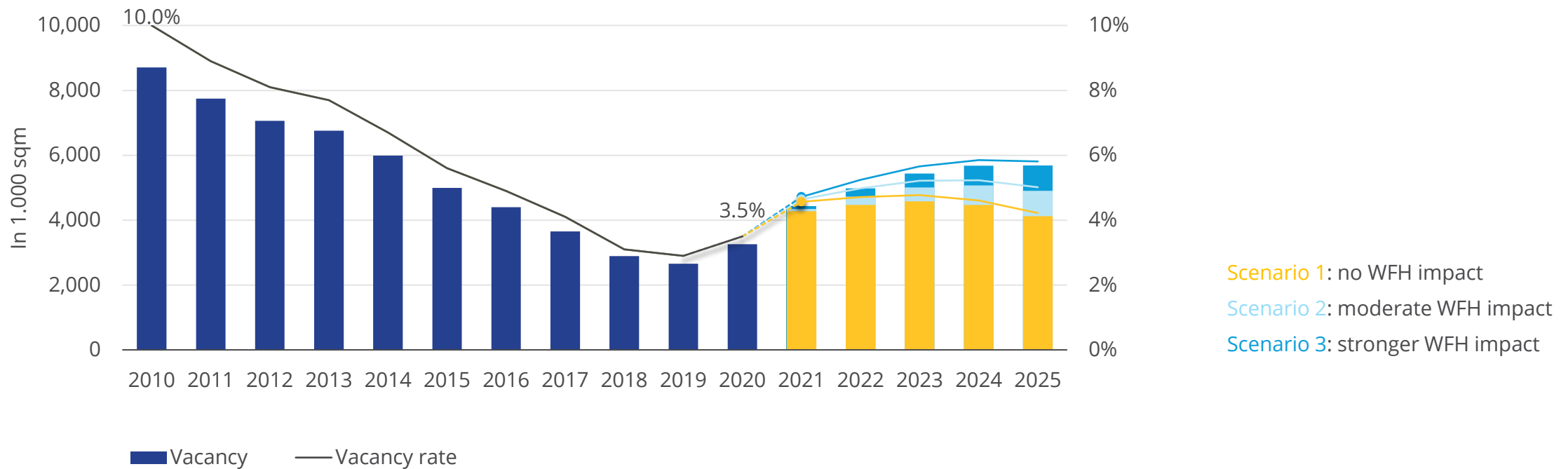
Chapter 2

Forecast overview
TOP 7 office markets

Top 7 aggregated, forecast until 2025 with scenarios

Office Space Vacancy Forecast TOP 7

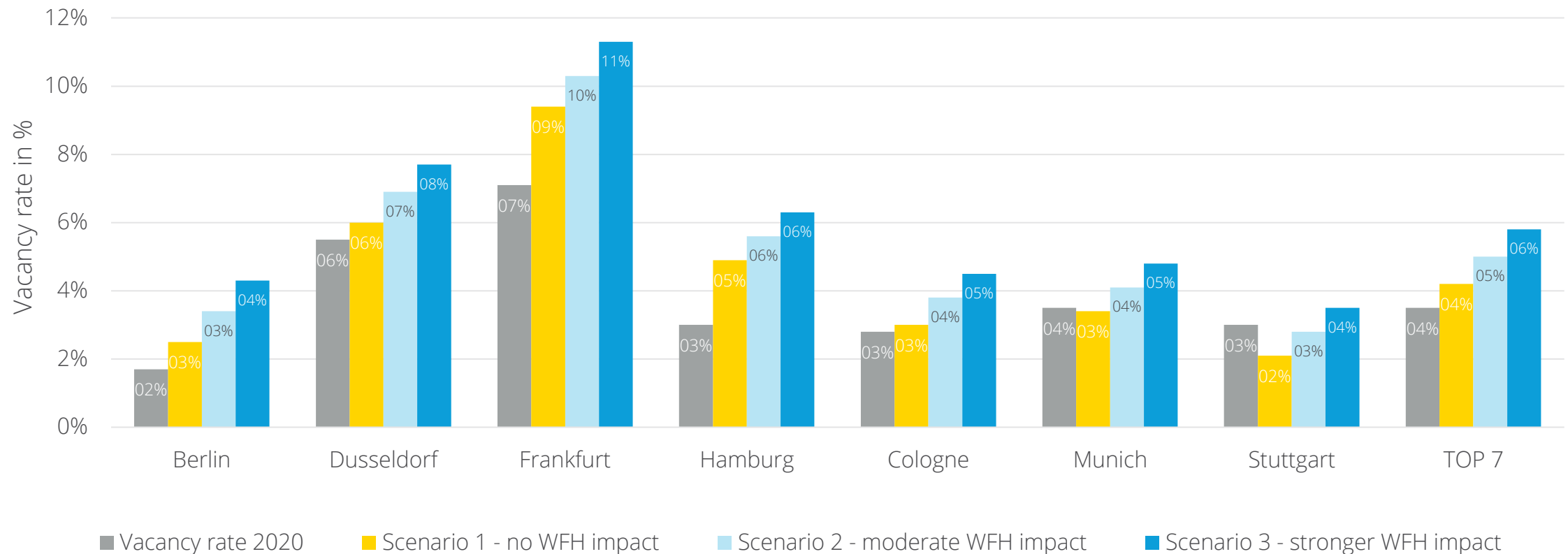
Vacancy rates will rise; assuming baseline scenario 2, peak will be reached in 2024



Top 7, forecast by scenarios

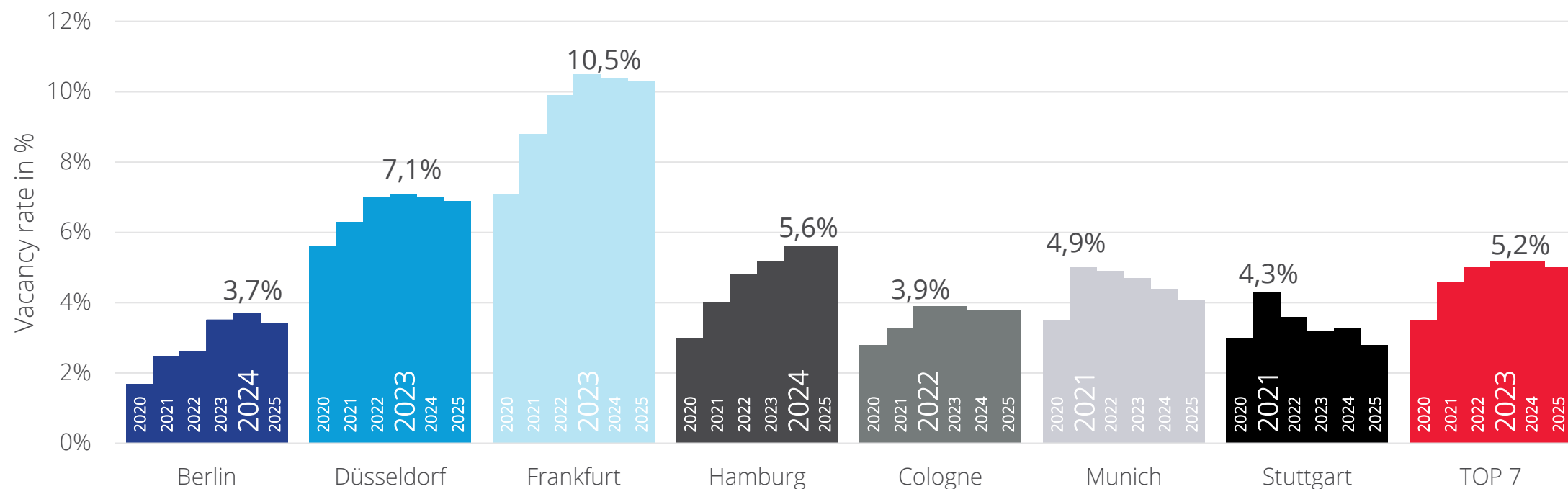
Office Space Vacancy Forecast 2025

Even stronger WFH impact will result in a still manageable increase in vacancies in most markets, structural breaks are not expected



Top 7, forecast time series scenario 2 (moderate WFH impact) Office Space Vacancy Forecast 2021-2025

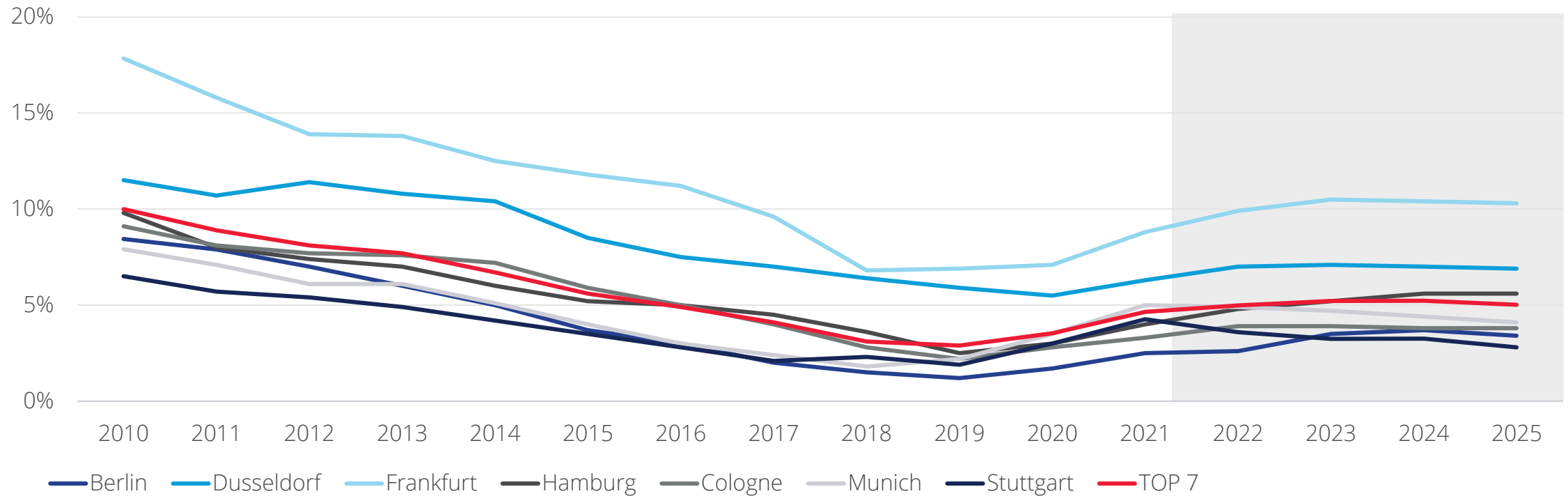
In most markets, peak of vacancy rates expected in 2023/24, Munich and Stuttgart already reach highest level before WFH impact will take effect on a broad basis (from 2022 onwards)



TOP 7 by city, (Scenario 2)

Office Space Vacancy Rate TOP 7

Forecasted vacancy rates are only moderate in a historical context and remain below the level of the financial market crisis



A row of modern, colorful armchairs in shades of blue, grey, and black. The chairs have a unique, organic shape with a high back and wide armrests. They are arranged in a row, with some chairs in the foreground and others in the background. The background is a dark, textured wall.

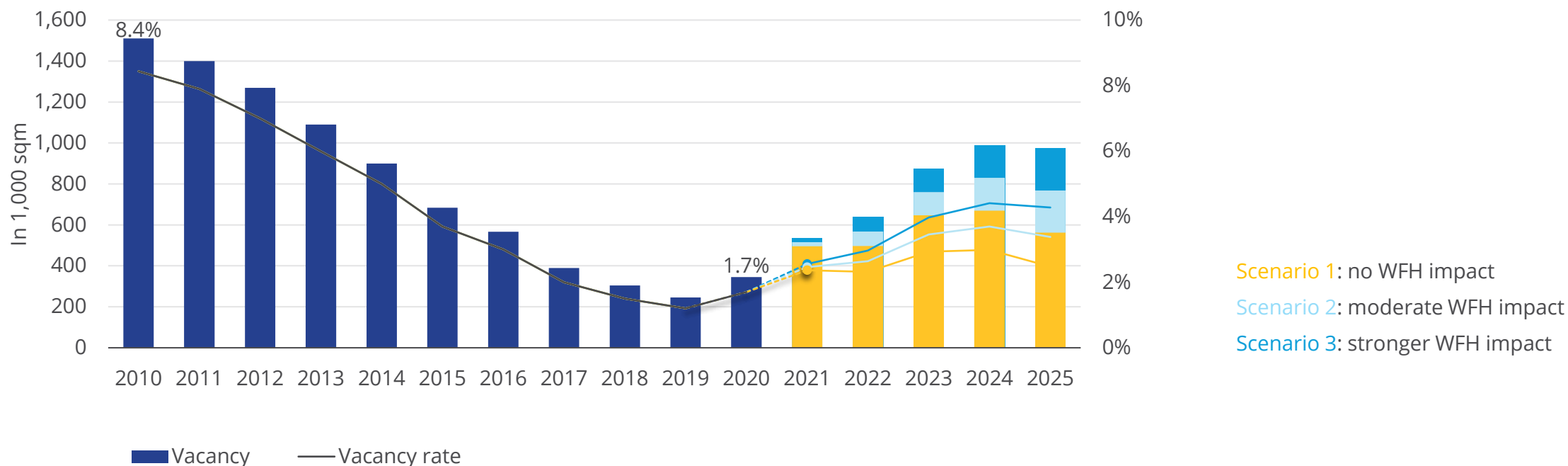
Chapter 3

Forecast Individual Cities

Forecast until 2025 with scenarios

Office Space Vacancy Forecast Berlin

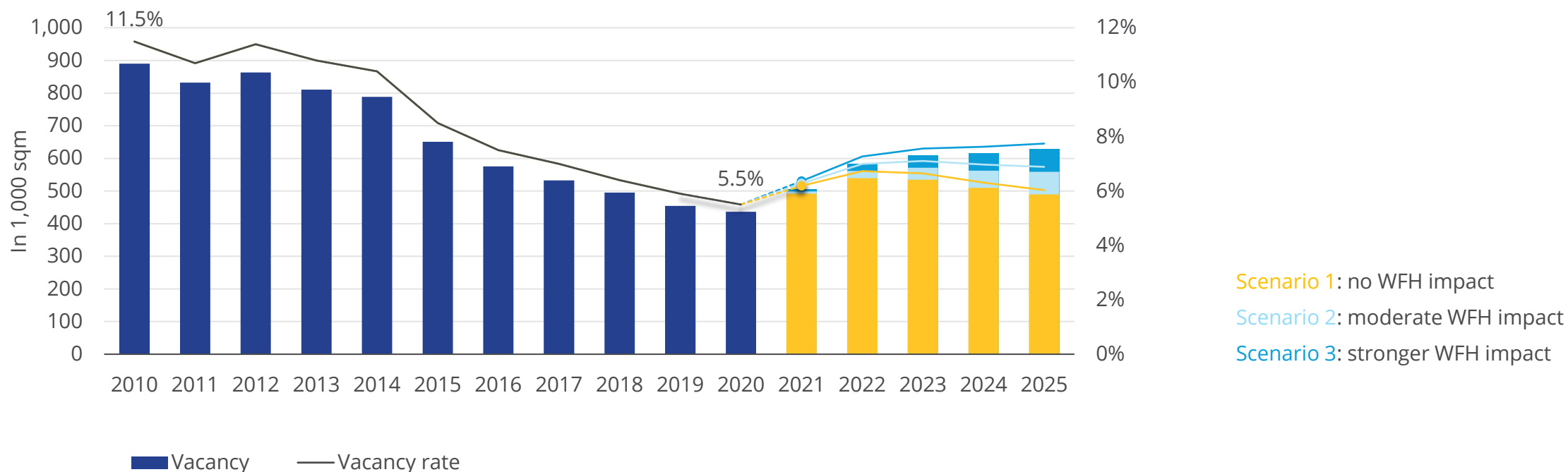
Berlin market very robust, even with stronger WFH impact, space availability remains low with vacancy rate of 4.3 %



Forecast until 2025 with scenarios

Office Space Vacancy Forecast Düsseldorf

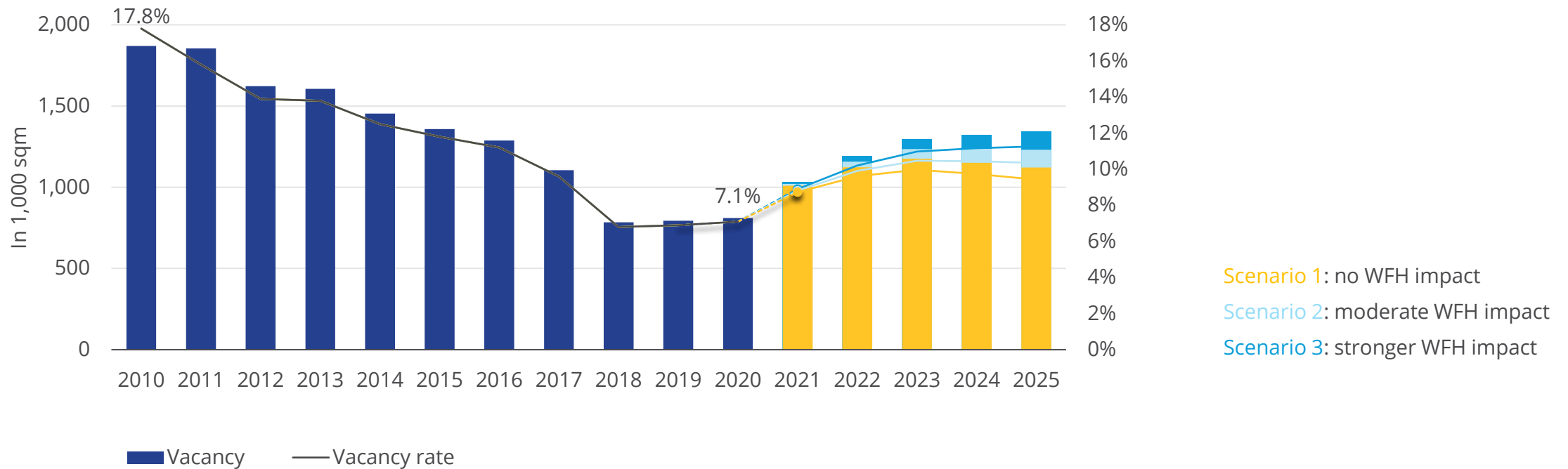
Vacancy rates on the rise, but remain below the level of 2015, when the boom phase started



Forecast until 2025 with scenarios

Office Space Vacancy Forecast Frankfurt

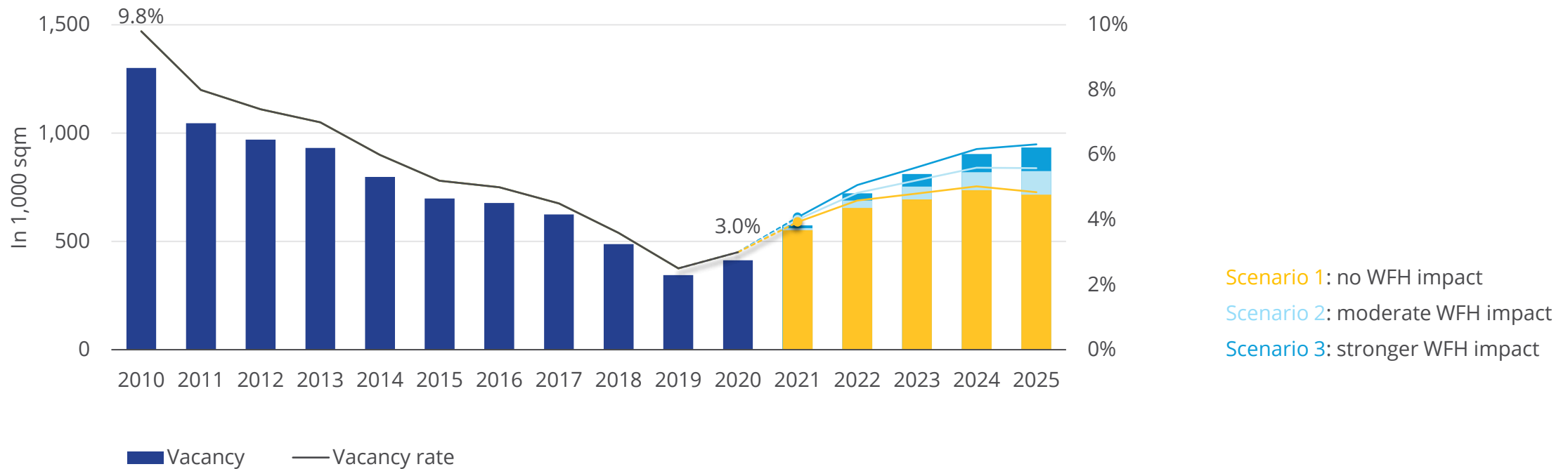
Vacancy rate expected to return to double-digit level, but well below that of the financial market crisis thanks to moderate expansion of supply



Forecast until 2025 with scenarios

Office Space Vacancy Forecast Hamburg

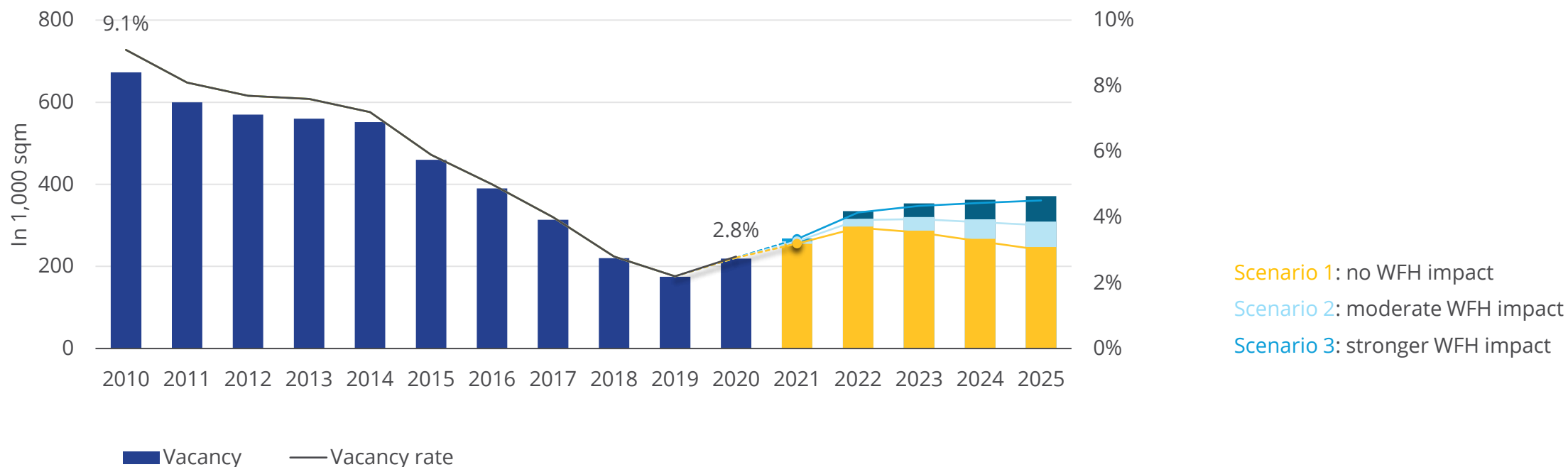
High project development activity in the forecast period will cause vacancy rates to rise noticeably until 2024 - starting from a very low level



Forecast until 2025 with scenarios

Office Space Vacancy Forecast Cologne

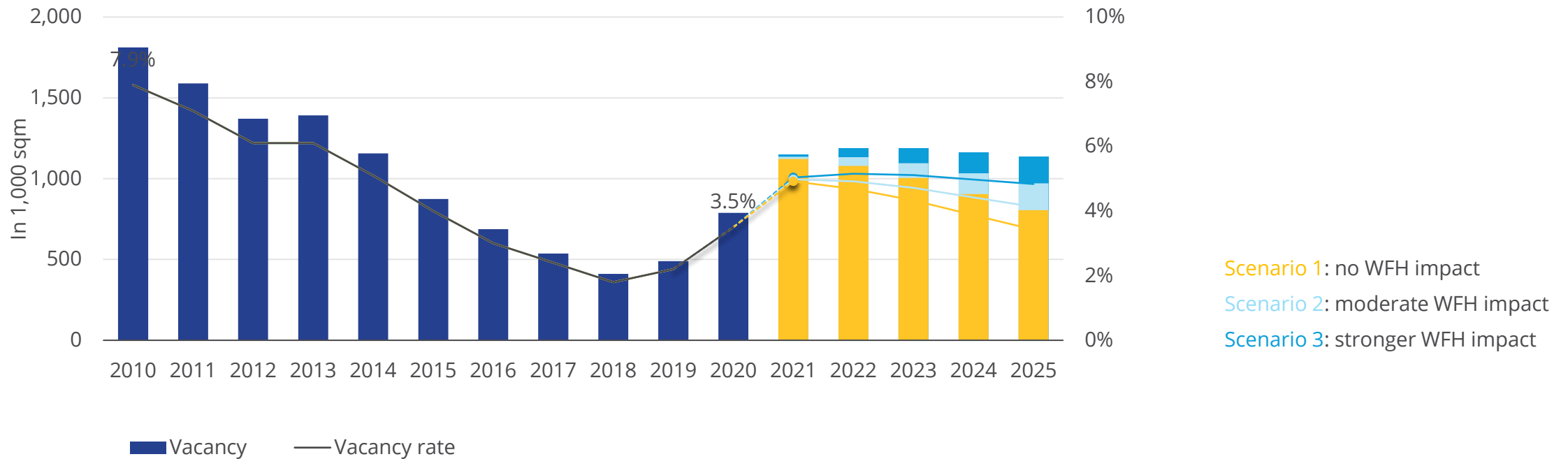
Cologne office market remains stable - vacancy rate below 5% in all scenarios



Forecast until 2025 with scenarios

Office Space Vacancy Forecast Munich

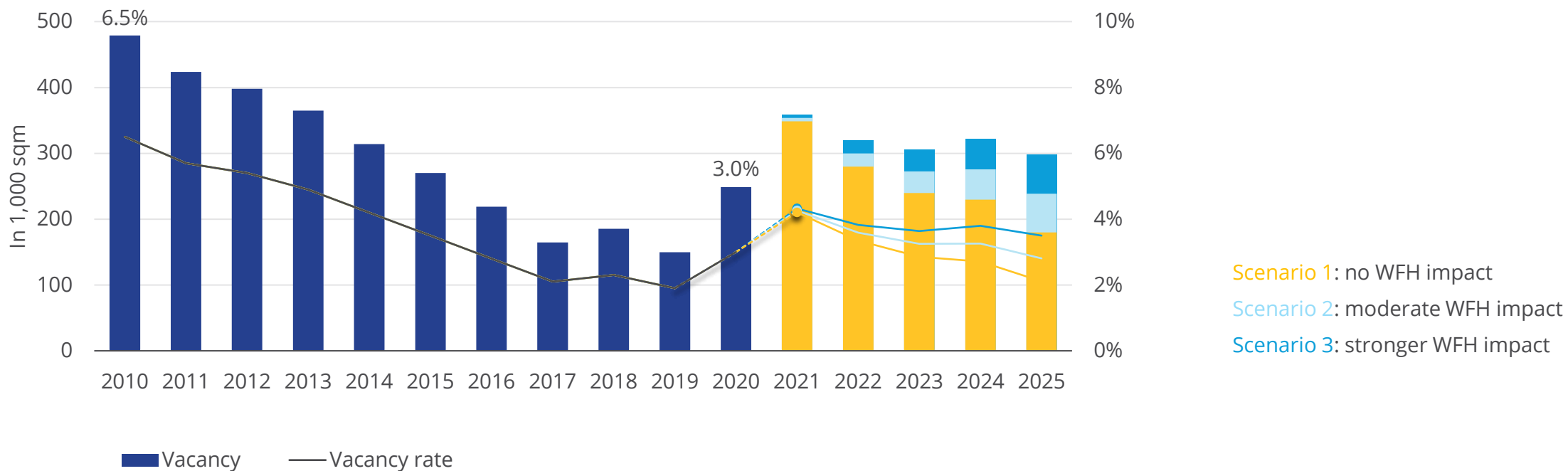
Vacancy rate peaks in 2021/2022, then falls again due to declining completion figures



Forecast until 2025 with scenarios

Office Space Vacancy Forecast Stuttgart

WFH impact could bring long-term relief in view of space shortage

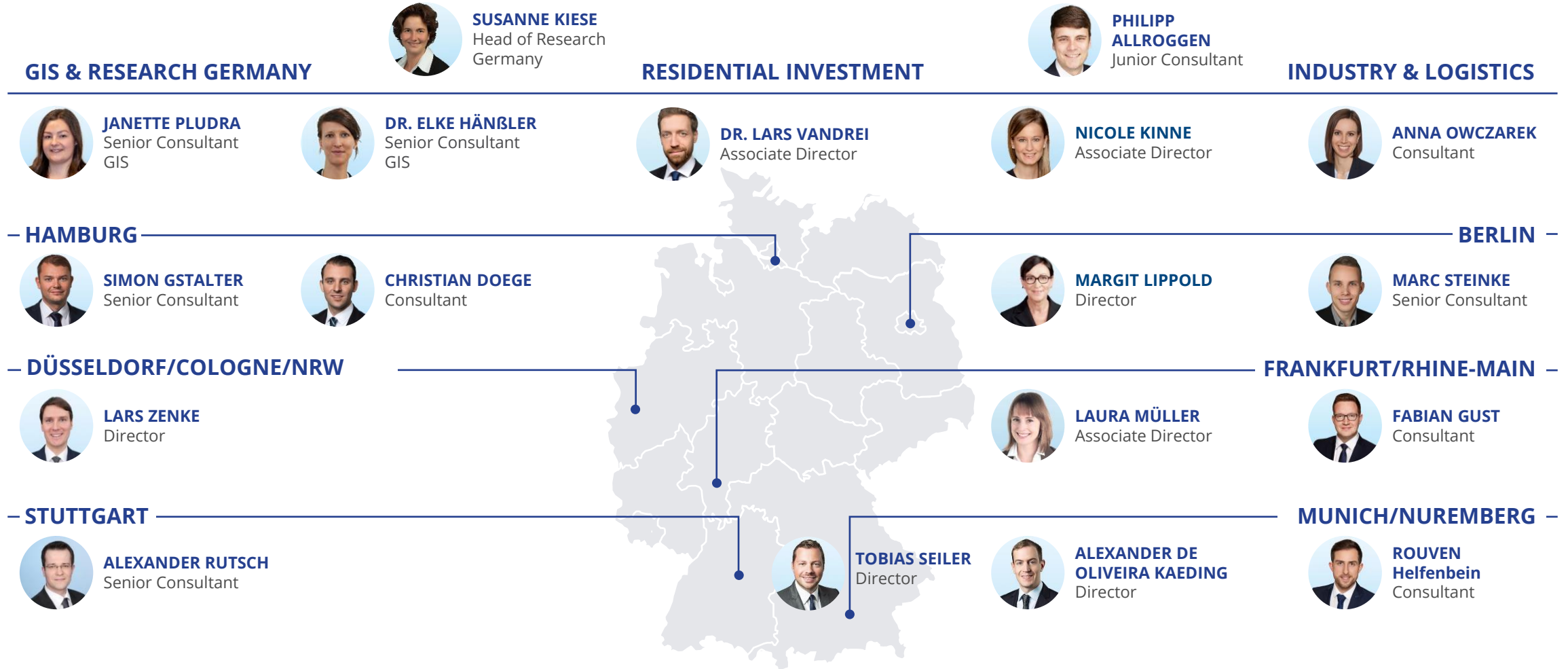


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A faint world map is visible in the background of the slide, centered behind the text.

68
countries

3,1 €
Billion turnover

186
million square meters under
management

18.000+
Employees

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