HIH REAL ESTATE

Contact details
HIH Real Estate GmbH
Susanne Edelmann
sedelmann@hih.de
+49 (0)40 3282 3390

RUECKERCONSULT GmbH
Jan Schweiger
schweiger@rueckerconsult.de
+49 (0)30 28 44987 65

Press Release

Office Real Estate Market: HIH Real Estate Does Not Expect Rent Rates to Soften

- Activities on the occupier markets to remain slow through the end of 2020
- Coronavirus crisis will cause no serious excess capacity in office space
- Low vacancy rates and pre-let ratios prevent price corrections

Hamburg, 29 May 2020 – HIH Real Estate predicts that rent rates in the office real estate markets of Germany's "Big Seven" cities will not soften in the year to come. In the ongoing year, by contrast, HIH Real Estate expects market activities to be drastically reduced and only a few larger-scale new lettings to move ahead, a trend that could adversely impact the current average rental tone. That said, the pre-let ratios in the property developments to be completed in 2020 and 2021 is over 80 percent, and therefore too high to make the build-up of a critical mass on the supply side likely that would jeopardise the rent level.

"For the time being, the occupier market remains shock-frozen. In many cases, lease agreements and lease renewals already in the final negotiation stage will proceed and be signed. But there are definitely rent processes that have been shelved by tenants and tenant leads for the time being. We expect this phase to last through the end of the year," said Ken Kuhnke, Head of Lettings Management and member of the senior management of HIH Real Estate.

Kuhnke predicts: "We assume that 2021 will see an economic recovery as demand will gather considerable momentum, and it will probably be driven by quality needs more than by cost-cutting requirements, just the way things have been over the past years. Even if companies were to start cutting jobs or required less space in the longer run because of their positive experience with their home office solutions, they would definitely make sure that their remaining premises are high-end properties with a high quality of stay. Decisions to move to new locations will take this into account. It will take a considerable amount of time for the present vacancy rates of sometimes less than 1.5 percent to climb back all the way to 7 percent, the threshold above which rent rates start to soften on a broader scale," said Kuhnke. The economic recovery will commence in 2021 and therefore soon enough to keep vacancies from regaining such a level.

Going forward, Kuhnke assumes that even lease renewal negotiations will follow the trend toward shorter lease terms: “The experiences made during the crisis will prompt tenants and tenant leads to ask for shorter terms of the leases they are about to sign. However, these companies will also be willing to accept higher rents in return for increased flexibility time-wise.” On top of that, the trend toward shorter fixed lease terms will make it easier for investors to anticipate upward rent growth during better times. Bearing all of this in mind, the excellent market figures of the past few years, combined with the experiences of the current phase, provide adequate protection against softening rent rates.

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About HIH Real Estate

The HIH Group (HIH Real Estate) is the leading provider of all-in-one real estate investment management in Germany. Our service range covers the entire life cycle of commercial real estate and extends from project development and the structuring of real estate investments through to asset and property management. We stand out thanks to our bespoke investment solutions and efficient fund administration. Our clients benefit from the extensive service range of the individual companies, quick decision-making and close cooperation within the HIH Group.

With around EUR 35.3 billion in assets under management and 786 employees at ten locations, we find, develop and manage commercial real estate throughout Europe.

More information can be found on the company’s website at: www.hih.de/en