



HAMBURG

EXECUTIVE SUMMARY

- **Thriving:** Hamburg's office market thrived in 2019 pushing the vacancy rate below 3% and prime rents to historic highs.
- **Unbroken appetite:** Investors large appetite for commercial assets was unbroken, yet product was scarce once again.
- **Active:** The City of Hamburg is actively fostering urban change. This includes investments by the City into development land e.g. HafenCity, Neue Mitte Altona and Bahrenfeld Science City.
- **Mixed Use:** HafenCity is Europe's largest inner urban development project. Currently, Westfields Überseequartier is underway and the new mixed-use complex will bring a new quality of working, living and shopping to the Hanseatic city.

Hamburg put itself on the global map with the completion of the world famous Elbphilharmonie concert hall in 2017. Until then, the Hanseatic City had kept its traditional low profile although there has always been a lot to be proud of and shout about. Hamburg is a liberal city with an impressive history in trade and a strong economic base in manufacturing, media, ITT and business services. The city's real estate markets are known for their solid performance and offer great investment opportunities.

Hamburg is Germany's second largest city and is home to Europe's third largest port for container shipping. It is not only the broad industry base that has resulted in Hamburg's growth and success, it has been the mix of high quality of life, strong infrastructure, liberal mindsets and its academic landscape. Currently some 112,000 students are enrolled in higher education and Hamburg University recently gained 'excellent' status according to the Federal and State Governments. The attractiveness of Hamburg as a business location is demonstrated by Google's and Facebook's decisions to locate their German headquarters in the city.

The number of inhabitants rose by 67,000 over the past decade taking the total population to 1.84 million. Recent forecasts predict an additional 150,000 inhabitants (+8.0%) by the end of 2040. Furthermore, the rise in urban density is driving Hamburg's urban planning strategy.

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

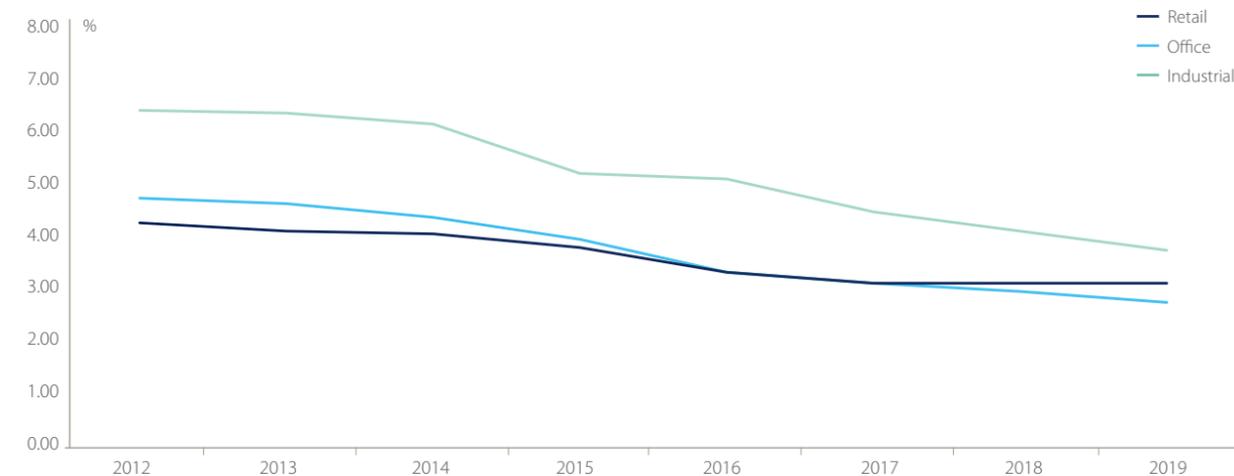
	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	→	→
Vacant Space	↓	→	↓
Construction Levels	↑	→	↑
Leasing Volume	→	→	→
Investment Volume (all sectors)		→	

The City of Hamburg needs to make sure it balances rising real estate prices, the high quality of living – which is certainly shaped by Hamburg's extensive greenery and famous waterways – and the fundamentals which make Hamburg a great location to do business.

Initial steps were taken in January 2016 when the City announced plans to build 10,000 residential units annually. Hamburg was certainly a frontrunner in this respect and continues to be, with several key schemes planned for 2020.

Hamburg is actively supporting the conversion of former industrial, trade and railway land. This has opened up vast areas for development.

HAMBURG YIELDS



Source: Avison Young

SOME OF THE KEY TOPICS TO LOOK OUT FOR IN 2020

Mobility:

- Higher frequency: To make commuting by subway more attractive, trains will run at shorter intervals. The bottleneck is the city train line which belongs to Deutsche Bahn. The City of Hamburg is in negotiations with Deutsche Bahn to increase the frequency of trains.
- Sharing has a future: Volkswagen has started to test its Moia network in Hamburg. Moia is a ride-sharing service which uses electric buses only. The number of Moia buses is due to rise from 200 to 500 in Hamburg. It will be interesting to see if Moia is financially successful for Volkswagen.
- A highways turns green: In a joint effort, the Federal State of Germany and the City of Hamburg have started to cover highway 7 for noise protection and to gain new development land. The top of the future highway tunnel is to be turned into parks and recreation facilities. The first stretch of the project is located at Schnelsen where the planning process is already at a mature stage.
- Pedestrians only?: Ottensen, one of Hamburg's most urban and densely populated districts is currently serving as a test area for pedestrianisation. Its main retail stretches – most of them with historic cobble stones – were turned into pedestrian zones in late 2019. The test is to run until spring 2020. The crucial question is: Will the residents of Ottensen decide to keep vehicles out or not?

Major Urban Development Projects:

- HafenCity's Überseequartier: So far Hamburg's major waterfront regeneration project HafenCity lacks a core. After a bit of delay, Westfield's Überseequartier is now under construction and it will certainly be the heart of HafenCity. By 2022 some 100,000 sq.m of lettable space is due to be completed across 14 buildings. The new quarter is set to be sustainable, mixed-use, intelligent and urban.
- Grasbrook: This new city district will comprise 45 ha of land plus 64 ha of waterways. Grasbrook will be fundamental for Hamburg's future development as it will extend from HafenCity and link both sides of the river. 6,000 residential units and 16,000 jobs are planned. More detailed plans are due to be published in April 2020.
- Science City Bahrenfeld: It still seems a long way into the future, but the City of Hamburg recently published its ambitious plans to create a "Science City 2040" in Bahrenfeld city district. Bahrenfeld is home to Desy - one of the world's leading accelerator centres. The plan is to turn the area around Desy into an urban campus/mixed-use neighbourhood. University buildings, science-oriented companies, sports and cultural facilities, residential units, schools and kindergartens will be developed. By the mid 2030s "Science City 2040" will have its own subway station.

Public discourse has a long tradition and leads to innovative ways to shape the city's future including new and almost radical mobility concepts.

Urban Planning Processes:

- In the past, the City of Hamburg has demonstrated that it has a strong vision for the future of the city and is determined to actively shape the urban future. This was the case, for example, when the City silently acquired parcels of land and published its vision of the then non-existent HafenCity in 1997.
- Lately, the City of Hamburg has made use of its acquisition and pre-emption rights in selected cases. It remains to be seen if this action will be repeated.

THE OFFICE LEASING MARKET

Hamburg's office leasing market recorded solid take-up, once again topping the 500,000 sq.m mark. It was thus in line with the 10-year average. However, a shortage of available supply prevented even higher levels of activity.

Letting activity was strongest in the retail and IT sector, followed by public administration and business services.

Although completion levels rose in 2019, office vacancy decreased further. The vacancy rate has continued to fall and was down to 3.0% by the end of December. It is the lowest level of vacancy recorded this millennium. Across all submarkets rental growth was noticeable and prime rents rose to €29.00 per sq.m/month in late 2019.

Although some 500,000 sq.m is currently under construction, an easing of the tight supply situation is not in sight. We expect demand to hold firm, with pre-letting remaining popular. Accordingly the vacancy rate is likely to fall below 3.0%. A further rise in rents is thus on the horizon, with prime rents likely to surpass the €30.00 per sq.m/month mark for the first time ever.

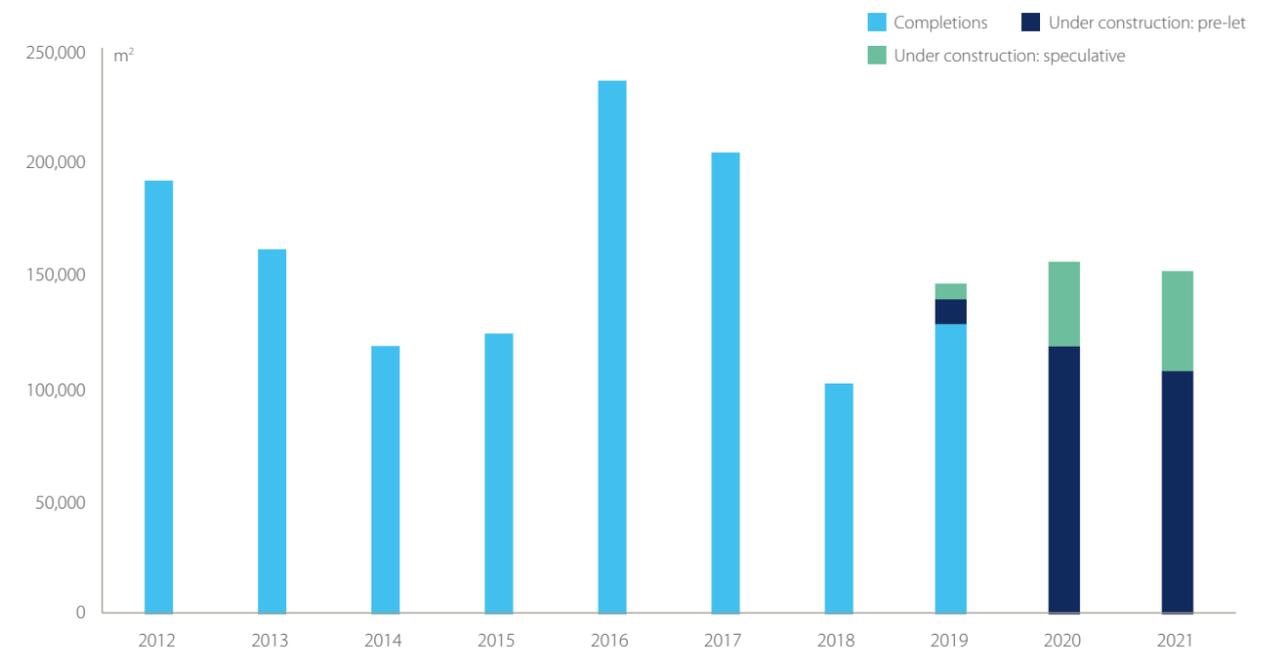
COMMERCIAL INVESTMENT MARKET

The mismatch between investment product and demand kept total investment volumes low in 2019 compared to the strong previous year. The annual total of some €4 billion is nevertheless in line with the long term average and shows stable interest in the northern market. Compared to the other top 5 cities, the share of foreign investors is lower, accounting for 30%. Regardless of investor's origin however, the strongest demand continues to be for office property. At around 60%, offices dominate investments by sector. Here too, the growing expectation of prospering rental markets and rising rental prices are playing a part. Furthermore, Blackstone's acquisition of Dream Global pushed the office share.

Retail investments differentiate further. Whilst retail warehouses are still sought after as a single estate or portfolio, high street retail is more critical. However, prime retail product continues to achieve top prices.

Yields reached historic lows in 2019. Even outside the CBD, prime yields for office assets are already below 3%.

HAMBURG COMPLETIONS Q3 2019



Source: Avison Young