



# DÜSSELDORF

## EXECUTIVE SUMMARY

- Strong performance: The office leasing market was at record high in 2019 with striking annual leasing volumes and decreasing vacancy rates which has led to rental growth.
- History repeating itself: Lack of available product has prevented higher investment volumes. Nevertheless investment volume still surpassed the €3 billion mark.
- Smart: Düsseldorf is a Smart City. Digitization has pushed forward, with the city heavily investing in education and innovation. The successful transformation towards a knowledge society is well underway.
- The future is mixed-use: some exciting new projects are underway, combining e.g. co-working and makers space.

**Strong market activity across all sectors was evident in the Düsseldorf commercial real estate market in 2019. The office leasing market thrived; there was a noticeable decrease in vacancy and a moderate rise in rents in most office submarkets. At the same time, total investment volumes rose above the €3 billion mark making it one of the best results on record.**

There is change everywhere in the state capital of North Rhine-Westphalia, Düsseldorf. In the past few years, major construction sites in and out of the CBD have dominated the scene. This is likely to continue in the months to come, as the city constantly strives to improve its built environment. Much of this development has been supported by Düsseldorf's urban development program 2020+ "Support Growth, Shape the Future". As a result, growth really is happening: Düsseldorf's population has risen by 4.5% over the last five years to 642,304 inhabitants, with forecasts predicting another rise of 14% by the year 2040. This will push the number of inhabitants above 700,000.

Driven by rising urban density, Düsseldorf has initiated the new urban development program 2025+ "More Life. More City. For Everybody." We expect the focus in 2020 to be on housing construction, mobility, sustainable city development and climate protection.

## 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)	→		

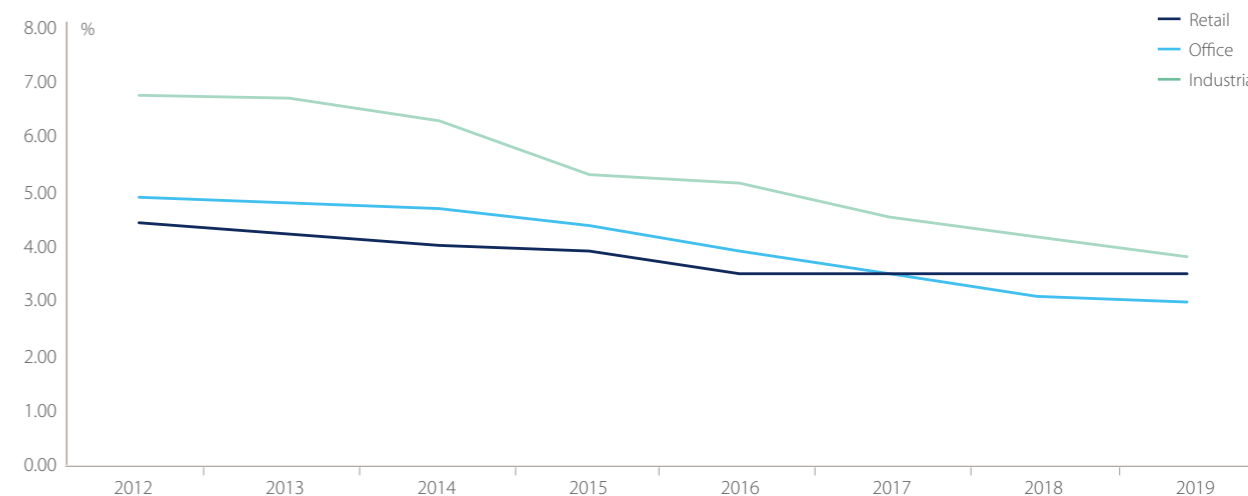
## SOME OF THE KEY TOPICS TO LOOK OUT FOR IN 2020

### Mixed-Use Developments:

- Factory Campus/Future Metso-Lindemann: The future of how we work and live will be central to the development of this former manufacturing site. Some 29,000 sq.m will be built comprising co-working office space, maker space/workshops, art studios and gastronomy. The attractive work environment created will enable employers to compete in the ongoing war for talent.
- C-View offices: A different kind of mixed-use will come to life in Düsseldorf's harbour, comprising 40% office and 60% logistics space, which is being built on a 27,000 sq.m site formerly used by Hermes' paper manufacturer. Another 3,500 sq.m will be kept vacant for harbour related commercial uses.
- SMS Group: What is going to happen once SMS group relocates its 1,000 employees from Düsseldorf to Mönchengladbach in 2023? We expect much debate around this move.

**Needed in the war for talent: attractive, new urban mixed-use complexes which offer space for shared working in offices and workshops.**

## DÜSSELDORF YIELDS



Source: Avison Young

**Mobility**

- Mobility Plan D: The City of Düsseldorf is in the process of updating its transport development plan. Climate friendly means of transport will be supported.
- Public Transport: The extension and upgrade of the existing public transport systems will continue. One key project is the completion of CBD subway station Schadowstraße.
- Bike friendly: More cycle paths are due to be provided, completing Düsseldorf's bike network with an anticipated 300km.
- Pedestrians come first: Retail prime pitch Schadowstraße is to be pedestrianised offering an outstanding shopping atmosphere.

**Climate Protection**

- Substantial Investment: EUREF AG (Europäisches Energieforum) has announced a €200 million investment into a modern innovation campus in the vicinity of Düsseldorf Airport. The research focus will be "Mobility of the Future" with some 2,500 employees expected to work on an energy turnaround.
- Forerunner: With the EUREF innovation campus, Düsseldorf will be a leading player for start-up and technology companies, particularly in terms of sustainability and ecology.

**Sustainable City Development**

- Compromise needed: The City of Düsseldorf needs to find a viable compromise between residential and commercial land use. To keep the city affordable and take pressure from the housing market, more residential units are needed. Some sites which were formerly used for manufacturing or had been planned for commercial use have already been converted to residential, although manufacturing continues to play an important role in the city as a component of Düsseldorf's diverse and solid occupier base.
- 80 hectares: Düsseldorf has great potential for new commercial and office development. The city has a reserve of around 80 hectares of land available for new user-adapted office space alone.

**Smart City**

- Getting ready: In 2017 Düsseldorf became a Smart City. Digitization of public administration, smart networks and smart services are at the planning stage.
- Education: Düsseldorf is investing some €1.3 billion in schools, digitization of schools and educational facilities. The city has certainly understood the importance of knowledge. With 50,000 students enrolled in IT and electronics in the Greater Düsseldorf area, the Ruhr region is succeeding in its transformation path from manufacturing to a knowledge society.

**COMMERCIAL INVESTMENT MARKET**

The Düsseldorf investment market started moderately in 2019, but from the third quarter, we saw an increase in transaction activity with €1.9 billion recorded at the end of Q3. In Q4, a number of large transactions were completed and the annual results surpassed €3 billion by far, putting it above the 5-year average.

Düsseldorf is Germany's fifth most important commercial real estate investment market. As in other German markets, there is a shortage of core product with investors increasingly willing to take more risks in value-add product or development opportunities. Investors who are able to take a long term view and take on risk are implementing land banking strategies of brownfield sites.

Investment activity and volumes are still highest in the office sector. Given Düsseldorf's position as one of Germany's prime shopping metropolises, investments in retail held firm albeit investors are certainly moving with caution in this sector. In 2020 the lack of product will still be the limiting factor for investment volumes. Prime yields are at their lowest recorded levels and are likely to remain there.

**The City of Düsseldorf has identified ITT and electronics as one of its key pillars for future growth. Developers and landlords need to make sure they provide excellent technological solutions in their buildings to make them future proof.**

**THE OFFICE LEASING MARKET**

The Düsseldorf office leasing market had a very strong 2019. By the end of Q3, leasing volumes had already surpassed those measured in the whole of 2018. By the end of 2019 some 500,000 sq.m of take-up had been recorded, outperforming the ten year average (361,000 sq.m) by around 40%.

Leasing activity was strong across all size sectors, but it was mostly the rise in large scale contracts which pushed the market to new heights. The number of deals above 10,000 sq.m rose from 2 in 2018 to impressive 12 in 2019. During the first three quarters of the year, we saw WPP acquire 36,800 sq.m, PwC's take 27,000 sq.m and WeWork commit to 21,600 sq.m. During the final quarter of the year another six deals in excess of 10,000 sq.m were due to complete, contributing some 120,000 sq.m to an already strong 2019. The strongest tenant sectors were Public Authorities, Manufacturing and Services (including co-working providers) followed by Media and Consultants.

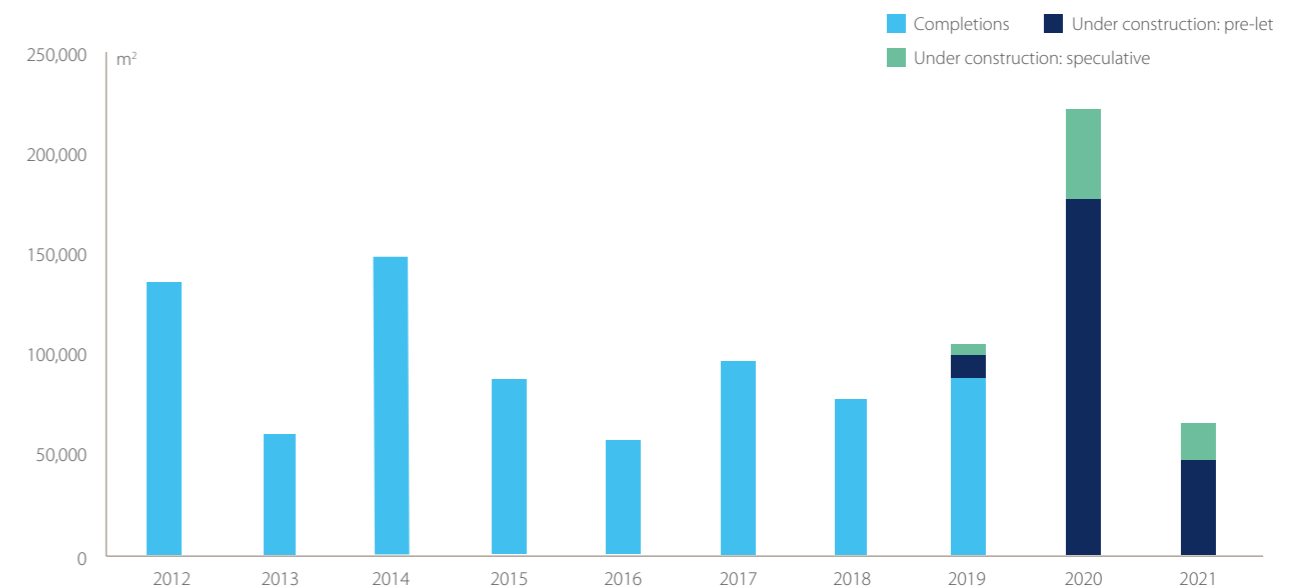
The number of tenants asking for smart and well-connected buildings is constantly rising. Connectivity rating agency WiredScore has certified 11 buildings in Düsseldorf and 3 more are currently in the rating process. The number is constantly rising and will continue to do so in 2020.

Office vacancy decreased noticeably during the year, falling below 7% for the first time since 2002. Driven by a strong economy growing service sector and decrease in vacancy, developers have shifted a gear and kick-started a number of new developments. Despite the increased development pipeline, 80% of the 350,000 sq.m is already pre-let.

Strong demand and decreasing vacancy is having an effect on rents, which are rising moderately across all submarkets during the year. This includes the prime rent which rose to €28.00 per sq.m/month.

Looking forward, we expect office demand to remain high in 2020. It is unlikely that the outstanding 2019 will be matched, although we expect take-up to be line with the long term average. The amount of speculative space coming to the market will be limited, therefore a further decrease in office vacancy is on the horizon for 2020, which is likely to lead to rental growth in undersupplied markets.

**DÜSSELDORF COMPLETIONS Q3 2019**



Source: Avison Young