



Market forecast for 2020

# Berlin's office employees of tomorrow

Client: TLG IMMOBILIEN AG

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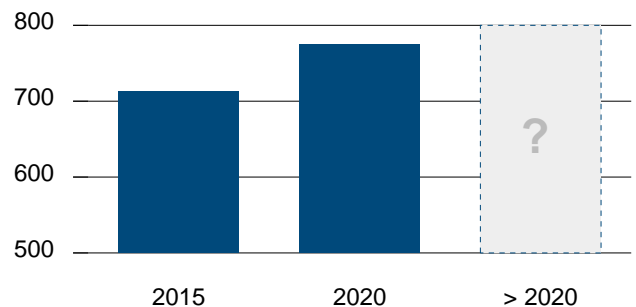
### EXECUTIVE SUMMARY

Berlin's economic structural change in the past five to ten years has been outstanding, even in a European context. Supported by booming tourism, major influxes from elsewhere in the country and abroad and cultural radiance in the fields of music, art and fashion, the economic basis has visibly stabilised – especially for start-ups and IT companies – and is now on course for stable growth.

Development of office employees			
	2015	2020	Increase 2015–2020
Number of office employees	713,000	775,000	62,000 (+8.7%)
Proportion of office employees	39 %	40 %	+ 1.0 %

Figures from the study	
39 %	Percentage of office employees in Berlin in 2015
44 %	Percentage of office employees in London in 2015
158,800 sqm lettable space	New office space in Berlin (p.a. 2011–2015)
366,800 sqm lettable space	New office space in Paris (p.a. 2011–2015)
4 %	Office vacancy rate in Berlin in 2015
9 %	Office vacancy rate in Paris in 2015
24.00 Euro/sqm lettable space	Prime office rent in Berlin in 2015
60.00 Euro/sqm lettable space	Prime office rent in Paris in 2015
848,000 sqm lettable space	Office letting turnover in Berlin in 2015
913,000 sqm lettable space	Office letting turnover in (central) London in 2015
4 %	Percentage of civil servants in Berlin office employees in 2015
3 %	New economy percentage in 2000 (office employees in Berlin)
18 %	Digital percentage in 2015 (office employees in Berlin)
13.200	Employees in start-ups in Berlin in 2015

Source: bulwiengesa



Source: bulwiengesa

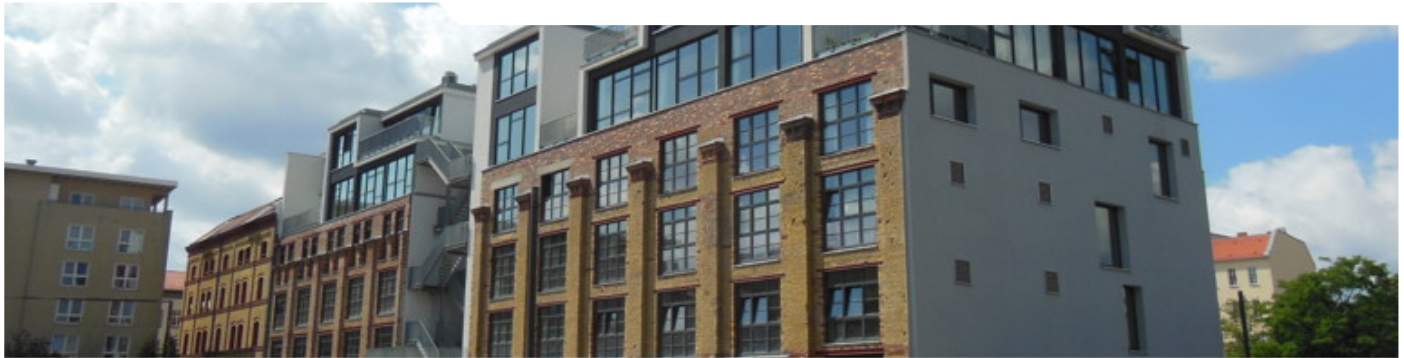
The number of office employees in the technology, media and telecommunications (TMT) sector is expected to increase by almost 14,000, with the majority of employees being in digital companies.

There are also more than 11,000 office employees in the other corporate services sector who are linked just as closely with the sector occupied by prosperous Internet companies. The demand for office space is focused primarily on Berlin Mitte.

**Three economic sectors will drive future growth:**

- Technology, media and telecommunications (TMT)
- Other corporate services
- Consulting

**= More than 50% of the total volume of 62,000**



## INTRODUCTION

Berlin's economic structural change in the past five to ten years is stunning and outstanding, even in a European context. Supported by booming tourism, major influxes from elsewhere in the country and abroad and cultural radiance in the fields of music, art and fashion, the economic basis has visibly stabilised – especially for start-ups and IT companies – and is now on course for stable growth.

The number of employees in Berlin has increased by 290,000 between 2005 and 2015; a significantly faster rate than in the rest of Germany. Consequently, the unemployment rate decreased from 19% in 2005 to 10% in 2015 (DIW Berlin Weekly Report 29/2016).

Numerous employees are still working in lower-skilled fields such as hotels, restaurants and care. As a result, at around 39% the proportion of office employees in Berlin is (still) at a relatively low level compared to the total number of earners. This is striking compared to other European metropolises and German A-rated cities.

Is Berlin likely to catch up? In light of the conditions described above, Berlin is currently standing at a crossroads in terms of both regional economy and urban development. Are obstructive, protective forces returning Berlin to a state that is considered 'normal' for it or is the competition between major German cities resulting in a sustainable increase in significance for Berlin – which will be driven and stabilised in the long term by investments – as well as Germany in a European context?

Proportion of office employees in all earners in 2015 from city to city	
A-rated cities	Percentage of office employees
<b>Berlin</b>	<b>39.0 %</b>
Dusseldorf	48.1 %
Frankfurt	50.0 %
Hamburg	43.8 %
Cologne	40.9 %
Munich	48.2 %
Stuttgart	47.8 %
Selected European cities	
Brussels*	73.3 %
London*	44.4 %
Paris**	47.0 %

Source: bulwiengesa, PMA & Eurostat; \* for 2014; \*\* for 2013

Some forecasts for Berlin are currently characterised by great euphoria and others by scepticism regarding the economic basis and political realisation of the city's potential. Therefore, the lines of reasoning in this study are closely based on the hard facts of the regional office property market and the regional economy. Only once we have closely examined some authoritative base data, considered possible risks and made an econometric forecast will we attempt to predict the circumstances under which Berlin will take a more moderate path or experience strong economic growth.

Besides the regional economic requirements and leverage, target groups are of key relevance to the forecast. Who exactly are the office users who might shape the job market in Berlin in the long term? What do they look for in districts and micro-locations?

New demand groups in Berlin are already visibly changing the structures of the market. Properties with lofts and old industrial structures, i.e. properties that have not been high in demand amongst traditional office users, are playing an increasingly significant role. Of course, the question of how highly companies will value Berlin as a location and market is also key.

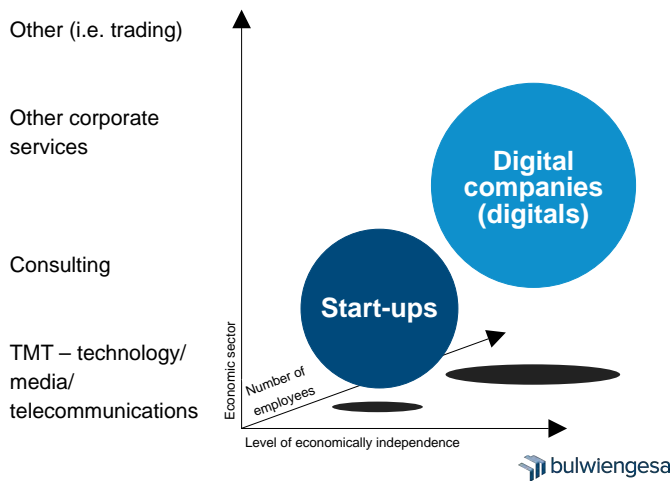
When it comes to naming and clearly categorising the group whose influence on Berlin is on the increase, the lines become blurred. All of its businesses have the Internet in common. In this regard, some of them are even successors of the new economy from the turn of the millennium. There are three dimensions to consider (see image). At the moment, start-ups are certainly smaller than digital companies (dimension 1) and, often being financed with venture capital, are less economically independent (dimension 2).

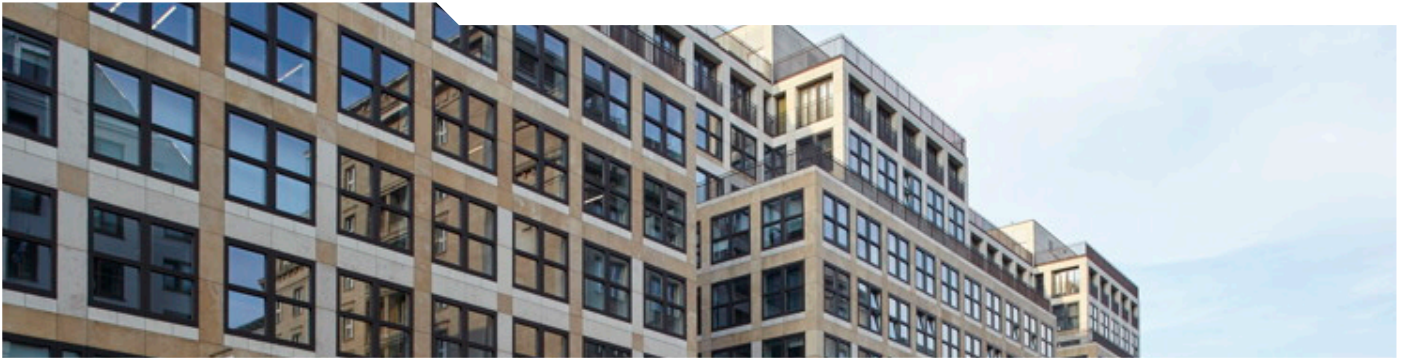
However, both company types fit into various categories in the third dimension, namely statistical economic sectors. The TMT sector in which the international worker statistics encompass technology, media and telecommunications is of the greatest significance. However, many of the Internet-based businesses can also be allocated to the fields of consulting and other corporate services. Therefore, this study uses a number of different terms to refer to specific developments in Berlin.

The question of 'Who will enter the office tomorrow?' certainly does not indicate any major, groundbreaking changes for a forecast horizon of three to four years. In many areas there are types of user that have been driving Berlin's office property market for the past three to four years. However, in these months the direction of the medium and long-term developments as well as knowledge of the cores of regional economic growth are important for strategic decisions affecting the future of Berlin.

The real estate sector and urban development are responsible for accommodating the new demand in order to tie it to Berlin in the long term – and not losing it to rival locations in Germany and abroad.

**Terms associated with start-ups and digital companies**





# 1 BERLIN'S OFFICE PROPERTY MARKET

## 1.1 Available Space

*Berlin – the largest office property market in Germany*

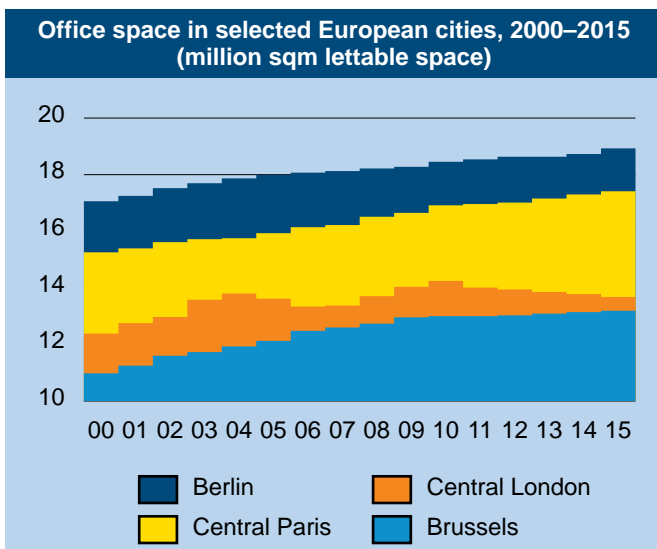
Berlin's office property market currently has a volume of around 19 million sqm lettable space, making it the largest office property market in Germany. By virtue of the volume of its market, Berlin plays a significant role on an international level too. At 12.5 million sqm, around 66% of the total volume of space is located within the circular railway surrounding the city centre – known unofficially as Central Berlin. This volume is similar to Brussels and Central London. The data set for Berlin's office property market does not allow us to consider Central Berlin over time; we must therefore refer to the longer-term development of office space on the level of the entire city.

has more than 50,000,000 sqm. At 17.4 million sqm (35%), the volume of office space in central Paris is even larger.

*High volatility and cyclic patterns for new buildings*

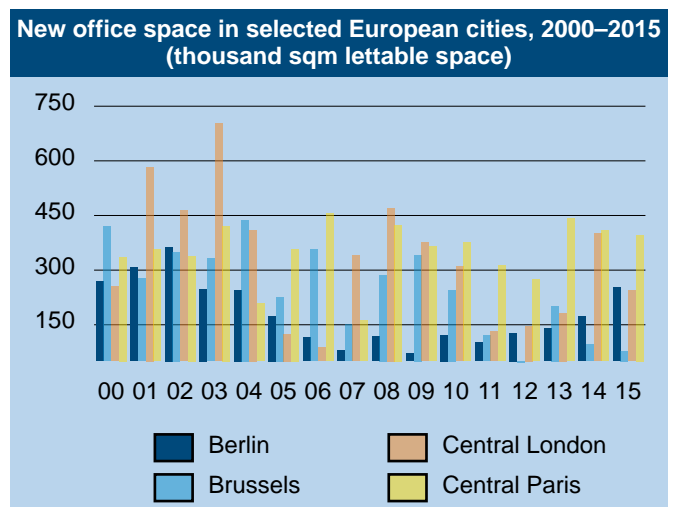
Even on an international level, construction activities in the Berlin office property market have experienced high volatility and cyclic patterns. The conditions normally alternate between booms and crises.

Between 1993 and 2002, around 434,000 sqm of lettable office space was created each year in Berlin. The proportion of speculative projects in this was relatively high and led to a significant increase in vacancy rates. This caused the rate of new buildings and proportion of speculative projects to decrease significantly in following years. An average of 191,600 sqm lettable space was created between 2002 and 2008 and just 112,000 sqm of lettable space between 2009 and 2013. The proportion of speculative projects decreased from 36% to 21% in this period.



Source: bulwiengesa / PMA

Due to their highly central roles, the largest cities in Europe, London and Paris have significantly larger volumes. For example, as the economic and cultural heart of the UK London has around 30,000,000 sqm of which just 46% is in central London. Île-de-France, Europe's largest office property market,



Source: bulwiengesa

Only recently has the volume returned to growth. At around 250,000 sqm lettable space in 2015, the highest volume of new space was created since 2002, although the level remains low compared to the 1990s. Additionally, 110,000 sqm lettable spa-

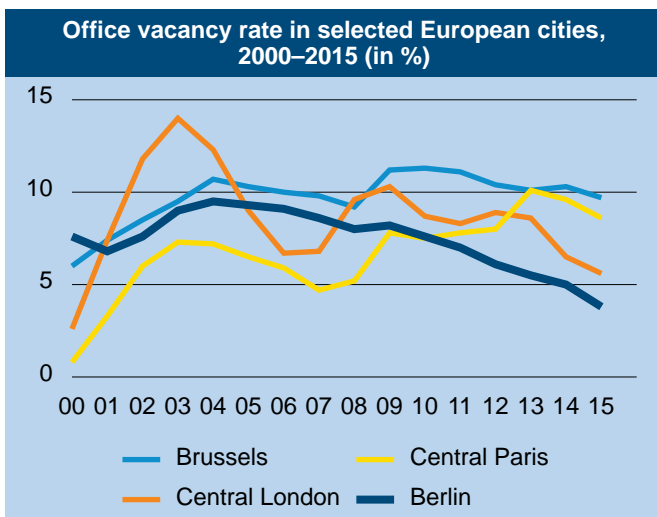
ce is attributable to the new Federal Intelligence Service building. Growing by one third, the proportion of speculative projects also increased slightly again.

*Office vacancy rates in Berlin far below 4%*

Vacancy rates in Berlin's office property market have been falling steadily since 2004. The reason for this decrease in available space was strong demand for office space combined with the moderate rate of construction activities described above. In particular, almost no more speculative projects were realised.

Office vacancy rates fell below the 4% mark in 2015. This means that the vacancy rates are as low as they were in the 1990s. Compared to Germany's largest real estate locations, Berlin now has the lowest vacancy rates after Stuttgart. In light of the consistently high level of demand, the volume of available space is set to decrease further in 2016 and a vacancy rate of 3.5% or lower at the end of the year is a realistic prospect.

In an international comparison of metropolises, Berlin has extremely low vacancy rates that are far below those of other cities. The economic weaknesses of some cities are clearly reflected in their office property markets. One example is the correlation between economic developments and office vacancy rates in Paris when vacancy rates were still falling in 2014 and 2015.

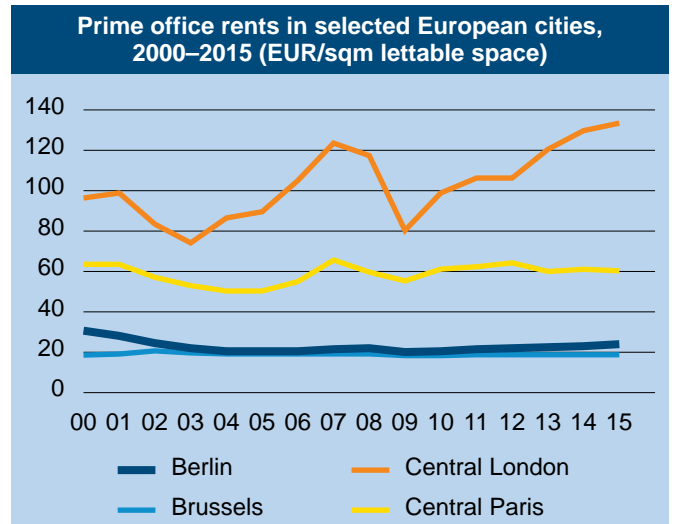


Source: bulwiengesa / PMA

*Ever-constant low market rents compared to other cities*

At the moment, a very high level of demand for a limited volume of space is characterising the office property market in Berlin. This imbalance is currently having a particular effect on central locations in Berlin. Rents for office properties are rising as a result.

The top rents considered normal for the market have been growing slowly but steadily since 2010. After the EUR 24 sqm lettable space mark was reached in the Berlin office property market at the end of 2015, another increase to EUR 25.40 sqm lettable space was registered in the first half of 2016. This trend will continue over the course of 2016 and into the foreseeable future.



Source: bulwiengesa / PMA

In spite of the increases in rent, the difference compared to other European office property markets, especially the top markets London and Paris, remains large. Paris and especially London are at a significantly higher level, even compared to the top values of up to EUR 50 sqm lettable space reached by Berlin's office property market in the 1990s, although London currently expects its top rents to decrease slightly following Britain's withdrawal from the EU.

**1.2 Particular structural features**

*Many historic office buildings in Berlin*

In terms of building age structure, office buildings in Berlin differ greatly from other German and European cities. This is potentially one explanation for the extraordinary development of the user groups and of rents over the past five years (see sections 1.3 and 2).

At 35% in total, the majority of offices in Berlin were built before and during the 1940s. Most of these buildings are situated in well-established residential areas and have a highly distinct Wilhelminian style. They are used mainly by public administrations and state and national authorities. For some years these properties have also been in demand from other office users such as designers and start-ups.

Almost no new office buildings were built in Berlin between 1950 and 1989, whereas numerous other German cities greatly expanded their office building portfolios in the same period. Dynamic growth took hold following the reunification and approximately 25% of the office space in present-day Berlin is attributable to this phenomenon. During this phase, new office buildings were constructed on Potsdamer Platz and in Friedrichstrasse in particular.

This unusual portfolio of office space was a hindrance for a long time and from a long-term perspective, demolition, conversion and reconstruction were considered strategies to attain global economic competitiveness. Today, an extraordinarily high number of Wilhelminian and New Classical buildings are coveted as office buildings and are in demand from young companies such as designers and developers in particular. Classic segments of the corporate services sector are also showing increasing interest in such buildings.

Office space by building age (in %) in German cities					
Baualtersgruppen	Berlin	Hamburg	Munich	Cologne	Frankfurt
Up to 1914	23.9	12.7	9.2	6.3	6.3
1920s–1940s	12.8	6.5	4.1	4.1	2.5
1950s–1960s	8.2	14.6	15.3	20.8	18.4
1970s	9.1	16.2	14.1	21.6	17.8
1980s	6.6	12.7	15.8	11.4	11.7
1990s	25.1	20.1	19.3	17.9	16.7
2000er Jahre	12	15.8	19.6	16.1	13.5
N/A	2.4	1.4	2.6	1.8	13.1

Source: Baasner Stadtplaner / bulwiengesa

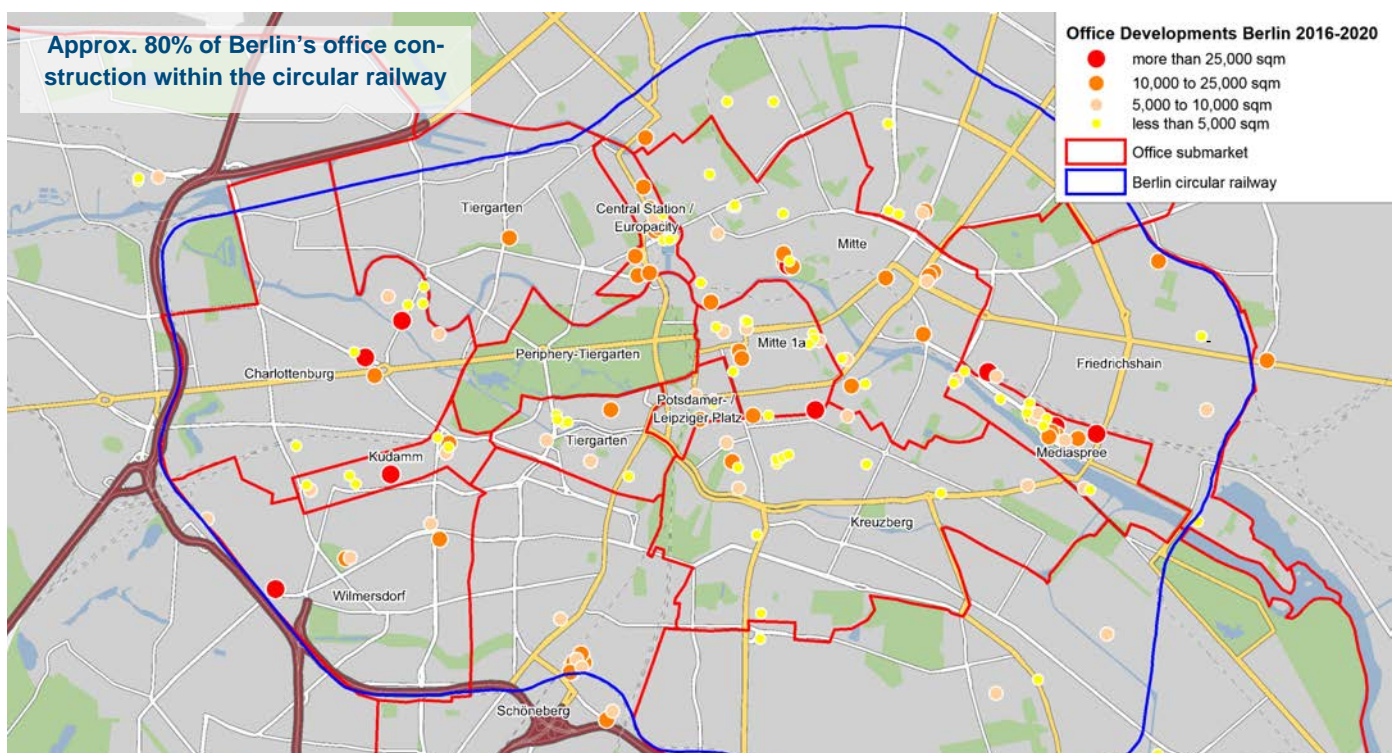
The atypical portfolio of office buildings is therefore becoming more relevant to the positioning of areas and is a unique selling point in the national and international competition for office users.

*Polycentrality and a focus on the inner city*

Besides its unusual building age structure, the office property market in Berlin is characterised by its polycentrality. With City West, City Ost, Potsdamer Platz and, most recently, Europacity, Berlin has four areas with central qualities.

This is one particularity of the market that international investors view with a critical eye due to its lack of uniqueness. The majority of the market is concentrated on the inner city. For example, in the last ten years around 81% of new buildings were constructed within the circular railway surrounding the city centre.

Recently the development areas Mediaspree and Europacity have been most in focus. The majority of new buildings will continue to be built within Berlin's circular railway. Around 79% of the planned office space to be realised by 2020 is located in the inner city.



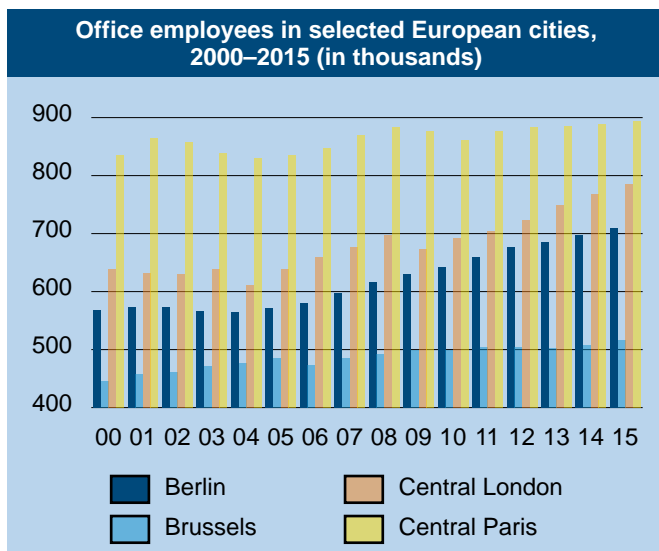


1.3 Demand – from a statistical perspective

Numbers of office employees increasing (almost) as quickly as in London

The local development of the number of office employees is no longer merely a real estate market indicator, but also a strong trend indicator for the regional economy as a whole.

There are currently around 713,000 office employees in Berlin. The number of office employees in the city has increased by around 140,000 over the past ten years, which corresponds to a growth rate of 2.4% p.a. This is significantly higher than some comparable European locations such as London, Paris and Brussels, with London reacting in a much more cyclical fashion than Berlin at the start of the financial crisis. With relatively high growth rates on an international scale, Berlin is ahead of Hamburg and Cologne and is leading Germany.



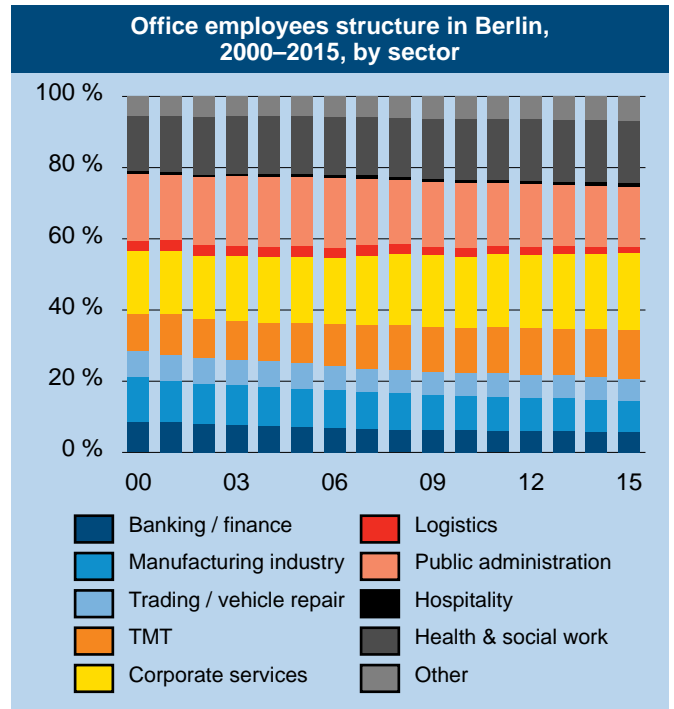
Source: bulwiengesa by working group, total macroeconomic calculations of the states / PMA

Generally speaking, the area per office employee varies greatly compared to the volume of office space (see section 1.1). Whereas office employees in London and Paris work on an average area of less than 20 sqm, office employees in Brussels and Berlin enjoy an average of at least 25 sqm. An important question for the future is whether or not this gap might close, and if so how quickly.

Growth for TMT and corporate services

In addition to the sheer number of office employees in Berlin, the growth structure has changed dramatically. Traditionally, most office employees worked in public administration in the past. However, their number has dwindled steadily over the past few years even though the number of government personnel (including lobbyists and unions) has increased.

Likewise, the percentage of office employees in the manufacturing industry and in traditionally under-represented banking and finance has been decreasing since 2000 following the economic structural change.



Source: bulwiengesa from Federal Employment Agency

The increase in the number of office employees is being driven by corporate services and the TMT segment (technology, media and telecommunications) with its IT personnel. In this regard, even the statistics clearly show Berlin's transformation into a start-up nucleus.

Berlin is profiting from the increasing digitisation of society greatly. According to Berlin Partner<sup>1</sup>, every eighth new job has been in digital companies since 2008. These developments are having an effect not only on pure technology companies, but also on classic sectors such as services and trading (e.g. Zalando).

<sup>1</sup> Berlin Partner is a public private partnership consisting of the Senate of Berlin and around 270 companies, and provides economic and technology funding to companies, investors and scientific institutions.

New Berlin office employees in selected sectors, 2006–2015		
Sector	Absolute change from 2006–2015	Change from 2006–2015 in %
TMT	30,120	45.4 %
Corporate Services	26,615	42.9 %
Consultation	20,588	47.0 %
Health & social work	19,437	30.3 %
Education	11,361	38.7 %
Public administration	7,483	6.7 %

Source: bulwiengesa from Federal Employment Agency

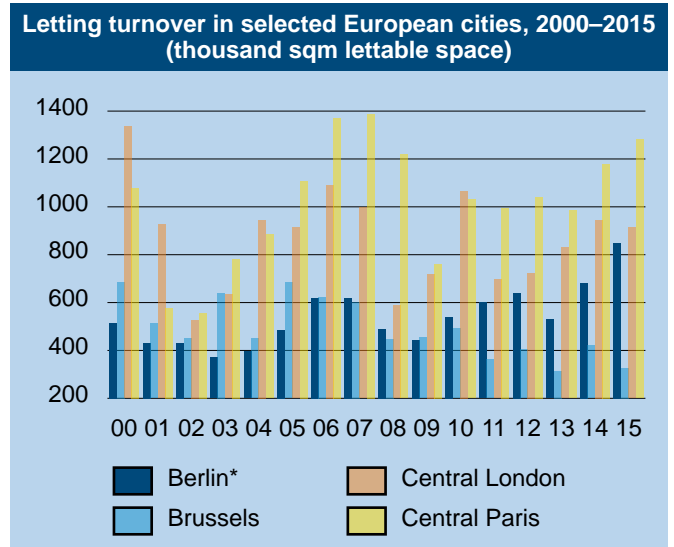
1.4 Demand and turnover – from a market perspective

Turnover on the rise

Letting turnover in Berlin, i.e. the renting and use of office space, tended to grow strongly in recent years in recognisable economic cycles. The extensive local economic infrastructure and the robustness of the German economy protected Berlin from significant declines, although economic weaknesses are as evident in the German capital as they are in similar European cities.

On average, over the past ten years around 600,000 sqm lettable space was realised each year in Berlin. In 2015 the 800,000 sqm mark was passed for the first time; this is the expected volume in 2016 as well. As a result, in 2015 Berlin (the city as a whole) closed the gap with central London in terms of letting turnover. Due to the leading position of its metropolitan area, Paris generated significantly higher volumes.

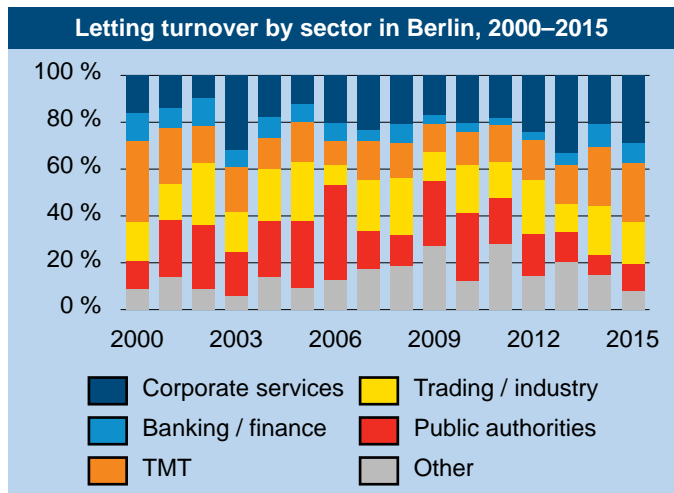
The clearly recognisable growth trend is of major significance to the future development of Berlin as it far exceeds that of Brussels, which had similar structures to Berlin until well into the new millennium.



Source: bulwiengesa / PMA, \* Berlin = entire city

Structural change is affecting the breakdown of turnover

Whereas demand for space in Paris, London and Brussels is highly focused on specific sectors such as banking and finance in London and Paris or political institutions and organisations in Brussels, the demand structure in Berlin is significantly different and broader. However, the structural change over the past ten years has caused the focal points to shift significantly.



Source: bulwiengesa

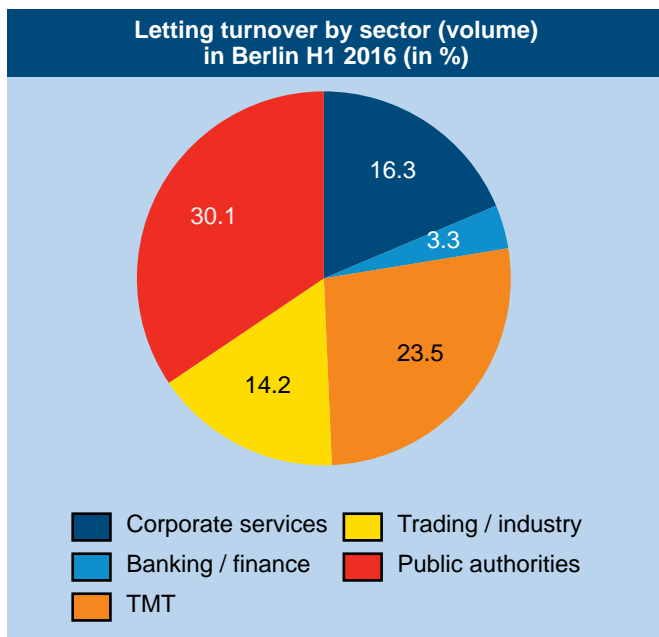
Combined with the development in the number of office employees, the share of turnover attributable to the public authorities decreased significantly and steadily. Simultaneously the TMT segment, which also encompasses numerous start-ups, has steadily become a demand group in the Berlin office property market (again).

Besides numerous minor agreements, more and more major letting agreements are being signed in this segment. The most prominent agreements in 2015 were those signed by Rocket

Internet (22,000 sqm lettable space) and Zalando (70,000 sqm lettable space plus various smaller-scale agreements).

Therefore, around 25% of the letting turnover in 2015 was attributable to the TMT segment, making it the second-strongest sector in the Berlin office property market. At around 30%, only corporate service providers, i.e. a group of lobbyists, organisations, marketers, property advisers and law firms, accounted for a larger proportion of the letting turnover.

Unlike the employment statistics, the breakdown of letting turnover by sector in the office market data shows just how dependent the scene is on new rental agreements each year. Clear trends can only be derived under certain conditions. The most important outcome is that the range of office users in Berlin has no major focal points, but rather is widespread and fluctuates. Even in 2000, in the age of the new economy, the TMT sector had a market share of more than 30% in Berlin which declined in following years. The aforementioned absolute figures must once again be taken into consideration: in 2001 and 2002 the letting turnover for office properties in Berlin was half as large as in 2015 and (probably) 2016.



Source: bulwiengesa

Similar developments are materialising in 2016. The TMT sector and service providers account for large portions of the letting turnover, yet the public authorities are also generating high proportions of turnover again through the Federal Ministries.

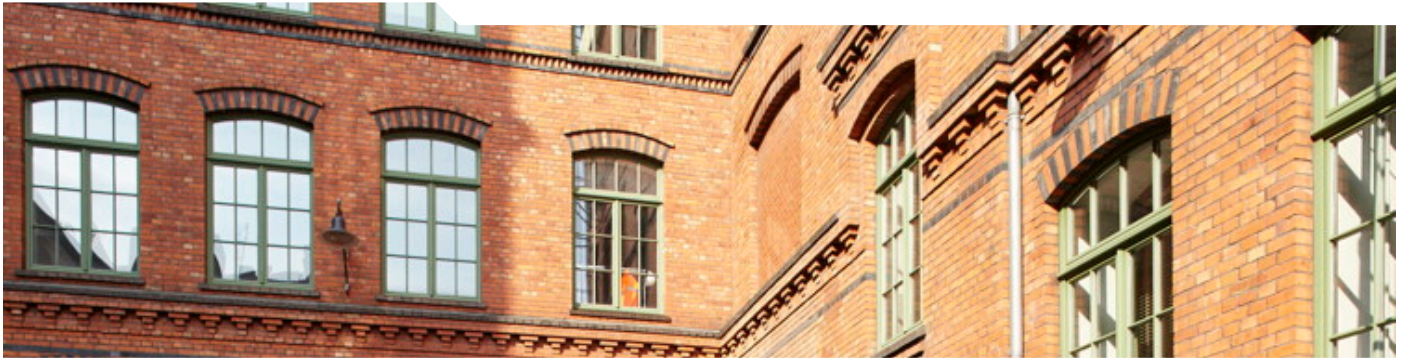
**Summary**

Berlin's office property market has recently been characterised by great prosperity which manifests itself in highly dynamic key figures. These developments are being driven by extremely **dynamic developments in the number of office employees** and are linked to a high level of demand for office space.

In this context, Berlin's evolution into the **start-up capital** is of particular relevance as it has also influenced the long-term demand structures of the office property market. Berlin is also benefiting from its unusual portfolio structures which serve the profile of the new user groups well.

The high level of demand for office space is backed up by a relatively low rate of construction work (2015: 140,000 sqm lettable space adjusted for the Federal Intelligence Service building), causing **vacancy rates to decrease** steadily to far **below 4.0%**. This has also caused rents to increase throughout the city. We can expect the current trend to continue in the medium term as there are no significant changes to the general conditions on the horizon.

In spite of the enormous recovery process that Berlin has experienced in recent years, **discrepancies remain** evident, especially in comparison **with the largest metropolises in Europe such as London and Paris**. In particular, the persistently **low rents** reflect the differences with exceptional clarity.



## 2 SPECIAL INFLUENCES ON BERLIN'S OFFICE PROPERTY MARKET

In addition to the traditional factors which influence the vacancy rates, rents, building completion rates etc. of an office property market in a similar way all over the world, the market in Berlin is subject to numerous special influences that do not exist in other locations. In Berlin, these definitively influence the structures and performance of the office property market.

*Governmental role is helping shape the long-term employment structure*

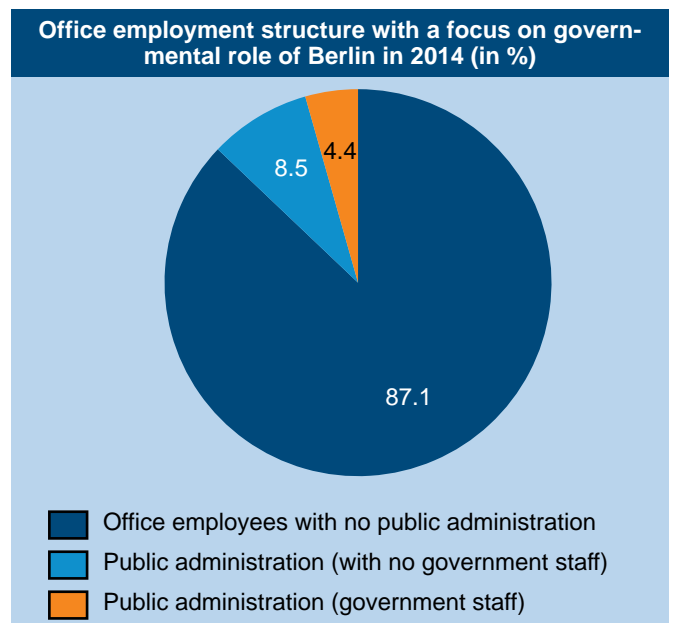
Following the reunification and the decision made by the German parliament in 1994 to change Germany's capital city, Berlin must overcome a great challenge that has had a considerable effect on the city's office property market.

Space was made in Berlin for numerous Federal Ministries and related political institutions in an extremely short period of time. Eight Federal Ministries are currently based in Berlin:

- Federal Ministry of Labour and Social Affairs
- Federal Foreign Office
- Federal Ministry for Family Affairs, Senior Citizens, Women and Youth
- Federal Ministry of Finance
- Federal Ministry of the Interior
- Federal Ministry of Justice and Consumer Protection
- Federal Ministry of Transport and Digital Infrastructure
- Federal Ministry for Economic Affairs and Energy

Following the establishment of Berlin as the new/old capital, the number of public service employees (almost exclusively office employees) grew significantly. In 2014, 42.2% (30,605) of the 72,550 officials in Berlin worked for the government. Therefore, a total of 4.4% of office employees in Berlin are employed by the government.

There are also numerous foundations, organisations, lobbyists, consulting firms and service providers with links to political institutions.



Source: bulwiengesa from Federal Employment Agency

As it is based on large individual agreements, the percentage of turnover is highly volatile and has generally been falling in recent years. At some points in the first decade of the 21st century, public authorities accounted for more than 40%. Following an almost steady decline in the recent past, just 12% of the total letting turnover in Berlin was attributable to public institutions in 2015.

The undiminished relevance of the public authorities is reflected in the first quarters of 2016. Numerous Federal Ministries achieved significant proportions of turnover and, given the growing number of government employees, more major agreements can be expected to be signed in the rest of the year. The Federal Ministries of Health and Labour and Social Affairs as well as the Federal Foreign Office are particularly noteworthy in this regard. Additionally, numerous projects are realised for the parliament.

Six of the 14 Federal Ministries are still based in Bonn. However, the calls for a full shift are becoming louder. Around 6,800 people are currently working in ministries in Bonn. Therefore, we can expect their shares of the Berlin office property market to remain considerable.

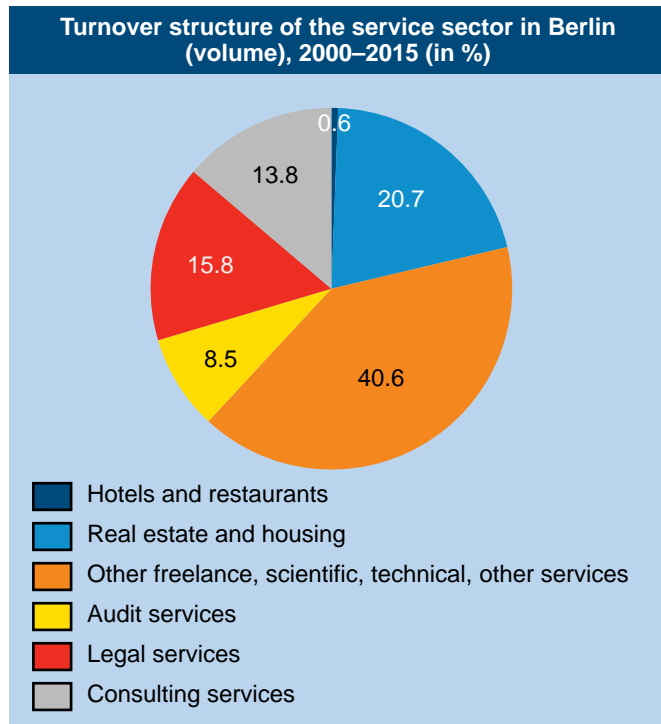
*Heterogeneous service sector driving turnover*

The service sector has grown sharply in significance in recent years and become the sector with the highest level of turnover in Berlin's office property market. In 2015, around 29% of the office letting turnover in Berlin was generated by all of the service providers based in Berlin.

Over the past 15 years, the companies in this sector have accounted for an average of around 21% of the letting turnover. Only the public authorities have higher long-term average volumes. In this regard the sector is extraordinarily heterogeneous. Besides classic consulting firms, it encompasses legal service providers, auditors, real estate companies, estate agents, hotels and restaurants.

However, the largest class comprises companies operating in the fields of other freelance, academic, technical and other financial services.

Between 2000 and 2015 this group of companies generated 40.6% of the turnover in the service sector. This corresponds to approx. 9% of the total turnover in Berlin at the time.



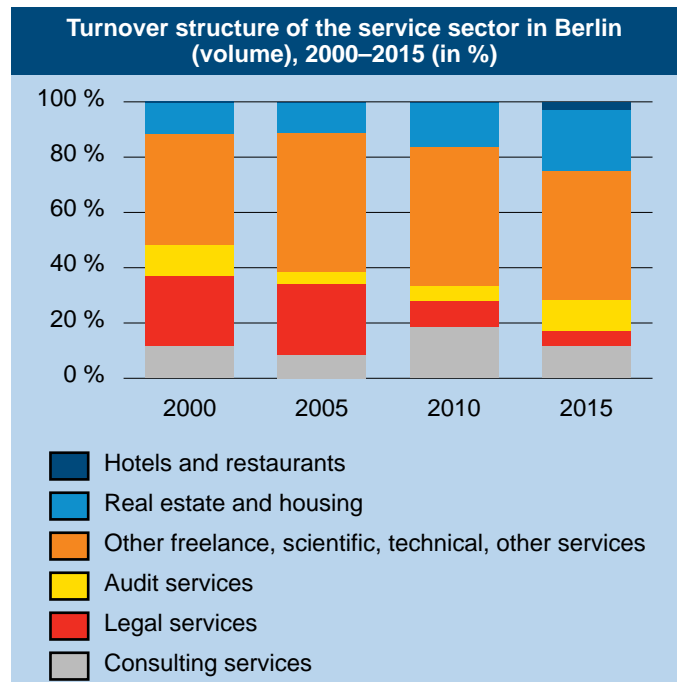
Source: bulwiengesa

This segment comprises many different companies, for example traditional fields such as architectural and engineering firms, security firms, call centres and employment agencies. Recently, these businesses have been joined by highly successful service providers with a digital business model such as booking.com and immoscout24.

The new market structures are also evident in other sectors such as real estate and housing, where providers of co-working space such as WeWork and Mindspace generate high volumes

of turnover alongside the well-established brokers, management companies and investment companies. These changes are also affecting hotels and restaurants. As a result, rental agreements such as the one with Lieferheld in Mitte have a clear effect on the statistics.

Fundamentally, it appears that more and more service providers either have a digital background or are closely linked to the start-up scene.



Source: bulwiengesa

The chronological trend once again demonstrates the high (and increasing) relevance of other freelance, academic, technical and other financial services. It also tracks the decreasing significance of legal service providers which were still influencing the market in 2000 and 2005 through numerous large rental agreements. These developments document the increasingly distinct heterogeneousness of the sector. The dominance of legal service providers and auditors has given way to a significantly more diverse structure.

*Berlin, the start-up capital*

In no other German city are as many companies established than in Berlin. Around half of all German start-ups in the past five years have decided to base themselves in Berlin.

Berlin has therefore cemented its reputation as the heart of the German start-up scene. The increasing rate of digitisation is a key factor driving these developments and is reflected in the structures of the start-ups.

In order to ensure that their definitions and analyses are separate, start-ups are categorised based on the 2016 IFSE study as follows:

Defining features of a start-up
- Internet based
- Scalable business model
- Less than five years old

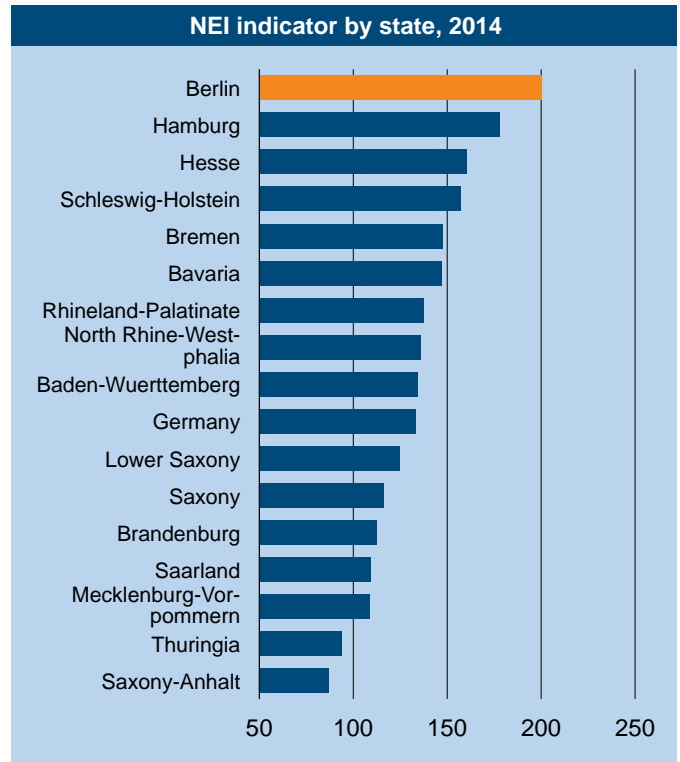
Source: IFS

The positive development of Berlin's start-up scene can be attributed to some important general conditions:

Berlin's status as a start-up centre
<b>Human resources</b>
- More than 170,000 students
- More than 30,000 university graduates p.a.
- 70% of Berlin citizens speak two or more languages
- More than 185 nationalities
<b>Cost factor</b>
- Lower costs of living than other major start-up metropolises such as San Francisco and London
- Comparatively lower office rents and still available space with the necessary property and location qualities
<b>Infrastructure and networks</b>
- More than 100 co-working providers and incubators (betahaus, wework)
- Numerous global players (Deutsche Telekom, Microsoft) run start-up and innovation hubs in Berlin
- Urban structures, short distances, good connections

Source: bulwiengesa from Berlin Partner

The NEI (New Entrepreneurial Initiative) indicator of the Institute of SME Research (IfM) in Bonn can be used to underline the dominant position of Berlin in a national context. This compares the number of start-ups and enterprise establishments as well as influxes of businesses in one year against the employable population of the previous year. With around 200 business registrations per 10,000 inhabitants (2014) of employable age, Berlin is far ahead of the rest of the German cities.



Source: IfM Bonn

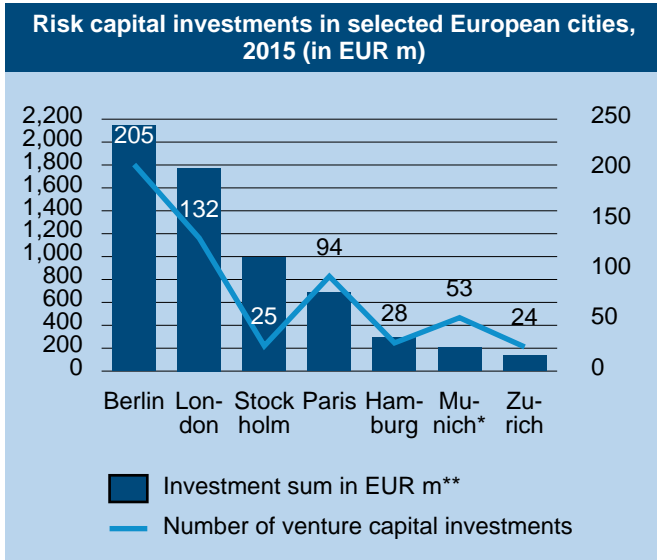
Risk capital investments are another striking indicator. Increasing by 85% compared to 2014 in Berlin, in 2015 these far exceeded the number of risk capital investments in the other German states. Every second investment was made in Berlin.



Source: EY 2016

Besides the number of risk capital investments, Berlin was able to generate a massive increase in the total volume of investments. As a result, Berlin took a leading position even on a European level and extended its lead over other major start-up nuclei such as London, Stockholm and Paris.

Given the size of the market, the research and technology hub of Adlershof has become a start-up hotspot alongside the classic trendy areas. The concentration of science, research and business here is producing numerous synergies that are being supported by the start-up centres there.



Source: EY 2016; \* including neighbouring communes; \*\* only published investment sums

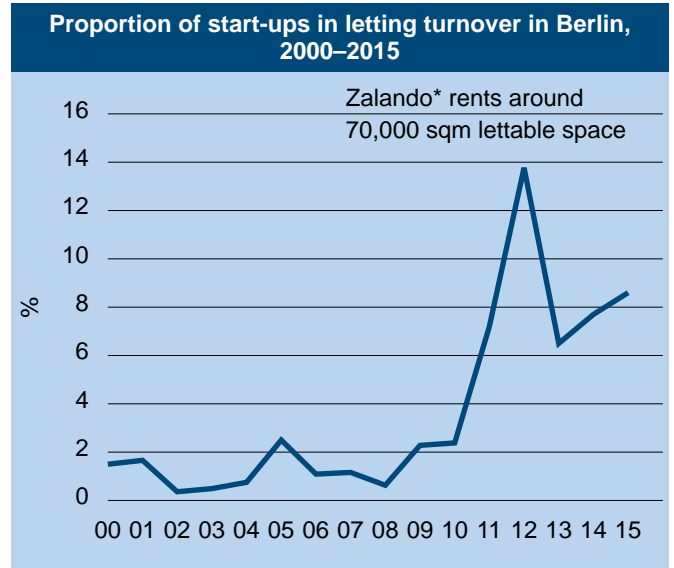
The breakdown of risk capital investments by economic sector is highly varied. In Germany, the majority of risk capital was invested in online retail in 2015 (EUR 1.8 bn). This represents around 58% of all risk capital investments. In second place were so-called fintech companies which operate in the financial services sector. Around EUR 611 m was invested in these in 2015.

*The high relevance of start-ups to the office property market*

These developments are having a long-term effect on the office property market in Berlin. Start-ups have become a prosperous demand group which has restored certain locations and even asset types to significance.

In Berlin, start-ups are most often to be found in the city's trendy locations. Start-up demand is concentrated in well-established residential districts in Mitte, Prenzlauer Berg, Friedrichshain/Kreuzberg and, recently, Neukölln. Urban structures, excellent connections to public transport and old industrial properties with lofts or red brick are symbolic of the preferred locations and properties of this user group.

Examples include the business parks of GSG in Kreuzberg and Mitte. This allows young designers and developers to work in extremely flexible areas in a central location, often not far from their own flats.



Source: RIWIS / bulwiengesa; \*Zalando was a start-up until 2012

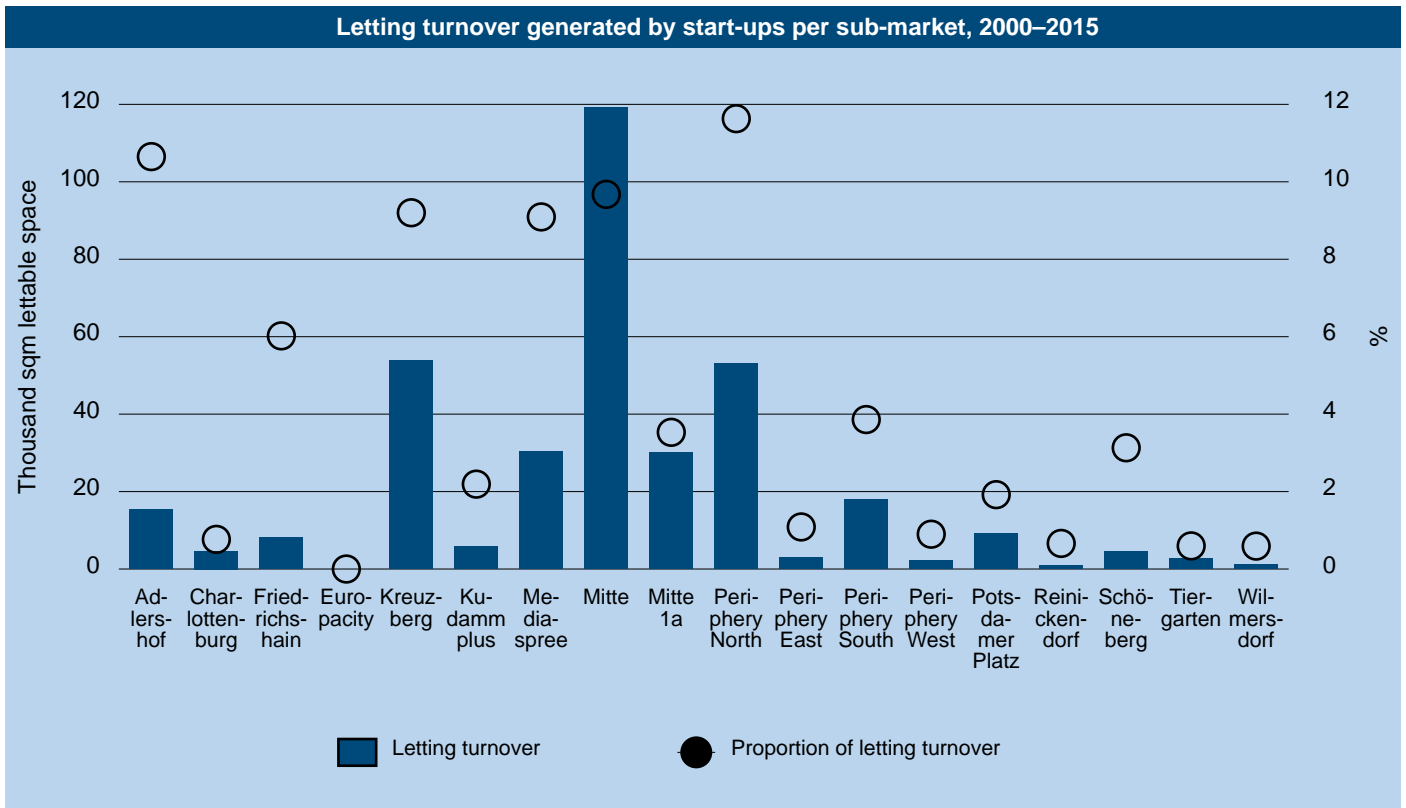
The growth of the start-up scene has been clearly evident in the turnover breakdowns since 2011. An average of 8.5% of the total turnover has been attributable to start-ups over the past five years.

And the trend is on the rise, with the average volume increasing dramatically in 2012 with a top share of almost 14%.

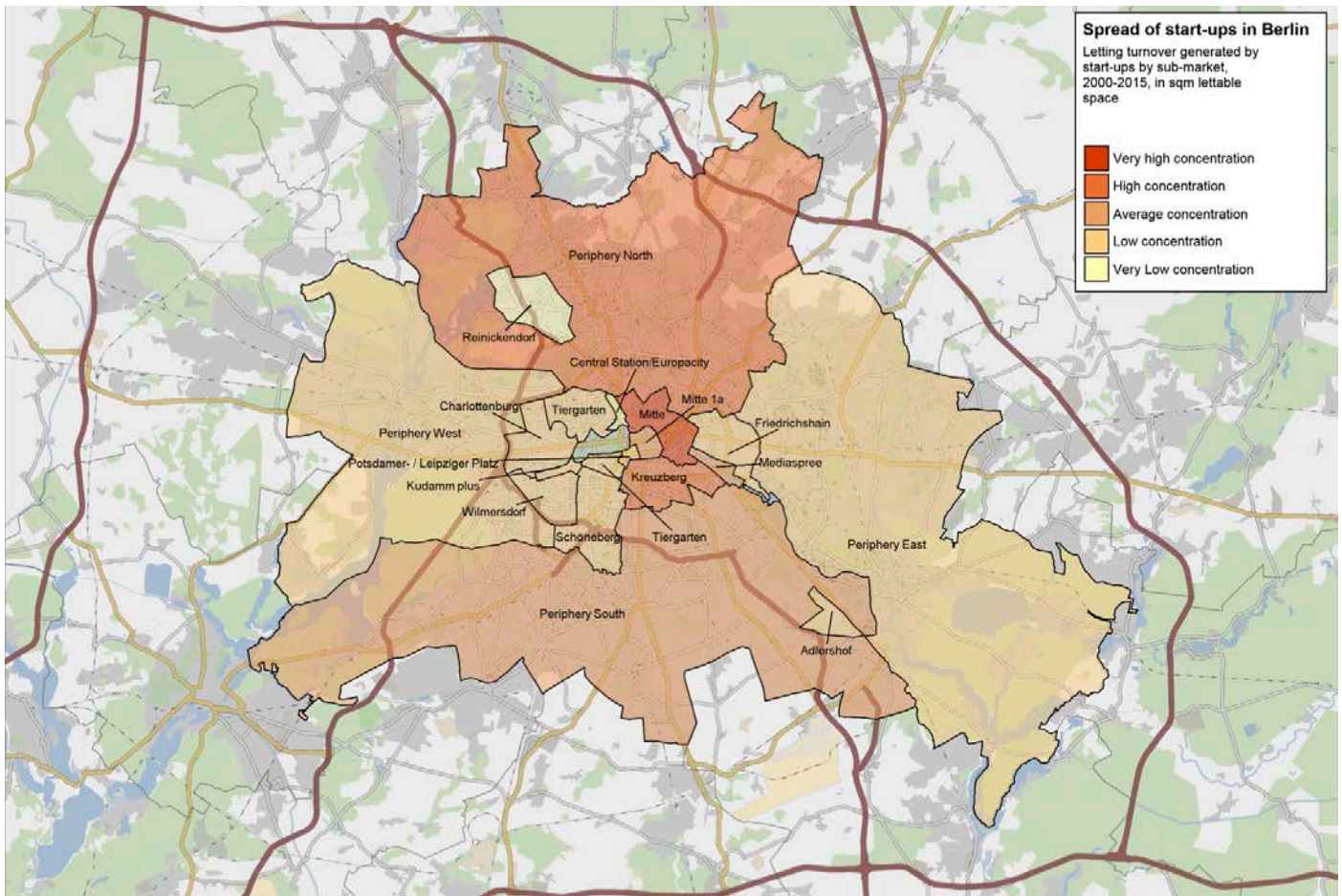
This was driven almost exclusively by Zalando, which was established in 2008 and which rented out more than 70,000 sqm lettable space in that year.

Zalando also rented out more than 75,000 sqm lettable space of office space in 2015, although this is no longer relevant in light of the definition of a start-up.

This example also highlights the evolution of start-ups. With a successful business model, start-ups can quickly grow into large-scale customers that have the finances and structures to consider even new buildings in classic inner-city or suburban areas.



Source: bulwiengesa





### Fewer headquarters, really?

Due to its flagging economy, Berlin was long considered a less attractive central location for companies operating on a global scale. Despite its status as the capital city, other major German cities such as Frankfurt, Hamburg and Munich, not to mention other international metropolises, were preferred locations.

Nevertheless, Berlin became the main regional or national headquarters for numerous well-known companies. However, DAX companies were not amongst them.

Berlin's dynamic development, driven by start-ups and the flourishing tourism industry, has caused significant change in the city.

For one, the capital is becoming a more attractive option as a location. However, this is limited by the fact that global players often have deep roots and therefore rarely relocate.

Additionally, some start-ups outgrow their status as small and medium-sized enterprises and become international companies.

Companies with main or German headquarters in Berlin (selection)	
Alba AG	Helios Kliniken
Axel Spriner AG	Herlitz
Bayer Pharmaceuticals	KPMG
Berlin-Chemie	Rocket Internet
Bombardier Transportation	Siemens (auch München)
Coca-Cola Deutschland	Sony Deutschland/Europe
Deutsche Bahn	Toll Collect
Dussmann Gruppe	Universal Music
Gazprom Germany	Vattenfall Europe
Gegenbauer Holding	Vivantes
GRG Services Group	Zalando

Source: Berlin Partner

Besides Zalando and Rocket Internet, which are the most prominent examples of former start-ups, other companies such as SoundCloud and Delivery Hero are operating on an international level and are also based in Berlin.

In light of the active start-up scene, we can expect more companies to be established in the future that will experience similar development. At the very least, Berlin has excellent conditions for this.

### Summary

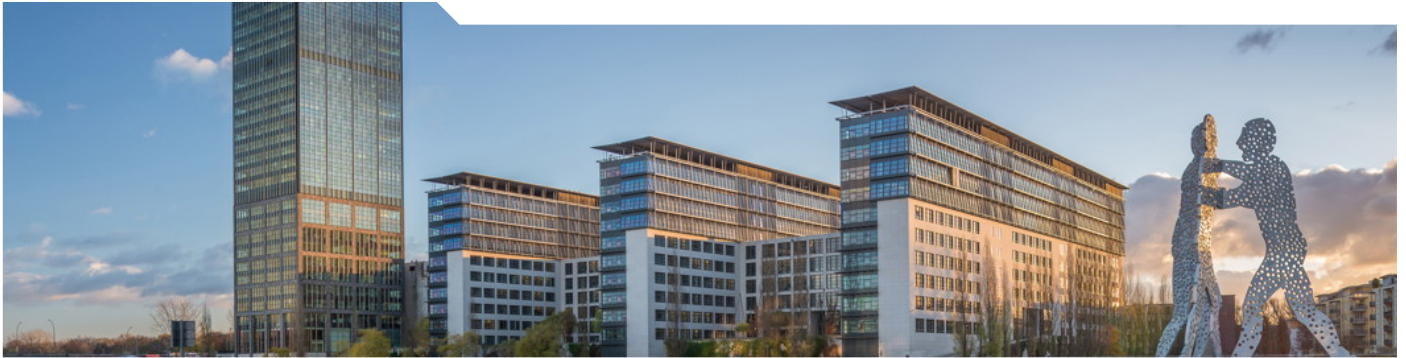
*The structures and development of Berlin's office property market is also shaped by extraordinary factors with no national or international equivalents.*

*Due to **Berlin's governmental role**, **4.4% of office employees** in Berlin are employed by the government which has generated consistently high volumes of turnover in the past. The turnover breakdowns in the first half of 2016 show that this remains highly relevant despite decreasing percentages.*

*Given that six of the 14 Federal Ministries are still based in Bonn and that the calls for a full shift are louder than ever, the government can be expected to continue to hold significant market shares.*

*No less remarkable is the extremely **heterogeneous service sector** in Berlin that is getting by with no dominant components, as was the case at the start of the 21st century. This **stabilises the market structures** and will remain sustainable in the long term in light of the increasing rate of digitisation in this sector.*

*At the moment, the high relevance of the start-up scene in Berlin is the most striking special factor. Not only has the start-up scene established itself as a thriving demand group, it is also providing an opportunity for Berlin to attract some sorely needed major headquarters in the short and medium terms.*



### 3 TYPES OF COMPANY

A more blanket approach by general company types can be used to map specific developments and megatrends in each market structure in more detail. Unlike in the statistics by economic sector, the paradigms are much more evident here.

These company types categorise businesses by size, orientation and inspiration.

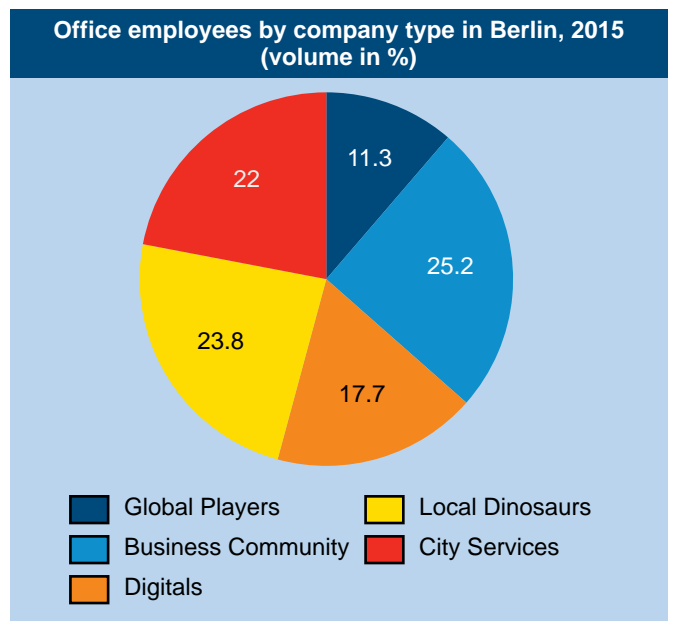
Description of company types	
Type	Description
Global Players	Listed, candidates for fusion, national operations, global network, has a main national branch at least
Business Community	National operations in established sectors, primarily medium-sized structure
Digitals	Start-ups or technology-oriented subsidiaries of major groups, national operations in new economic fields
Local Dinosaurs	Large service conglomerates with local operations, often public or semi-public
City Services	Products and services for the local market, primarily small and medium-sized enterprises

Source: Baasner Stadtplaner

#### Heterogeneous distribution across company types

Office employees in Berlin are currently characterised by a highly heterogeneous structure for the five types of company. This emerged over the past 15 years through the shift from city services and business communities to digital companies and global players.

However, on a national level Berlin continues to exhibit some particularities. For example, in no other city do digital companies account for such a large percentage of office employees. Additionally, local dinosaurs such as public authorities remain relatively highly represented. Despite the increase, however, Berlin is still home to a relatively low percentage of global players.



Source: bulwiengesa



Source: bulwiengesa

The low percentage of global players and the disproportionately high presence of city services are the hallmarks of an office property market that still has little international orientation. However, the changes that have occurred in recent years reflect the ongoing transformation process.

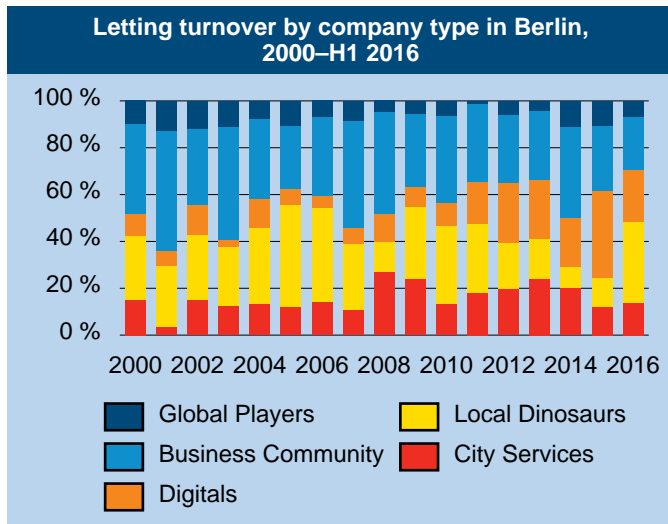
*Employment structures are affecting long-term turnover structures*

The structure of letting turnover has changed significantly following the changes in the office employee structure. In 2000 companies classified as business communities and local dinosaurs still dominated the demand for space, yet today the distribution is far more heterogeneous.

The sub-markets have varying degrees of suitability for the types of company. This is reflected in the breakdown of turnover.

For example, we can trace the increase in the significance of digital companies, especially in sub-markets with creative, urban flair such as Kreuzberg, Mediaspree and Peripherie Nord. In contrast, global players are focusing primarily on reputable city markets.

There will be shifts in the future due to the ongoing scarcity of supply, especially in central locations. Therefore, global players will increasingly switch to locations away from the city sub-markets, as demonstrated already by the rental agreement signed by Allianz in Adlershof in late 2015.

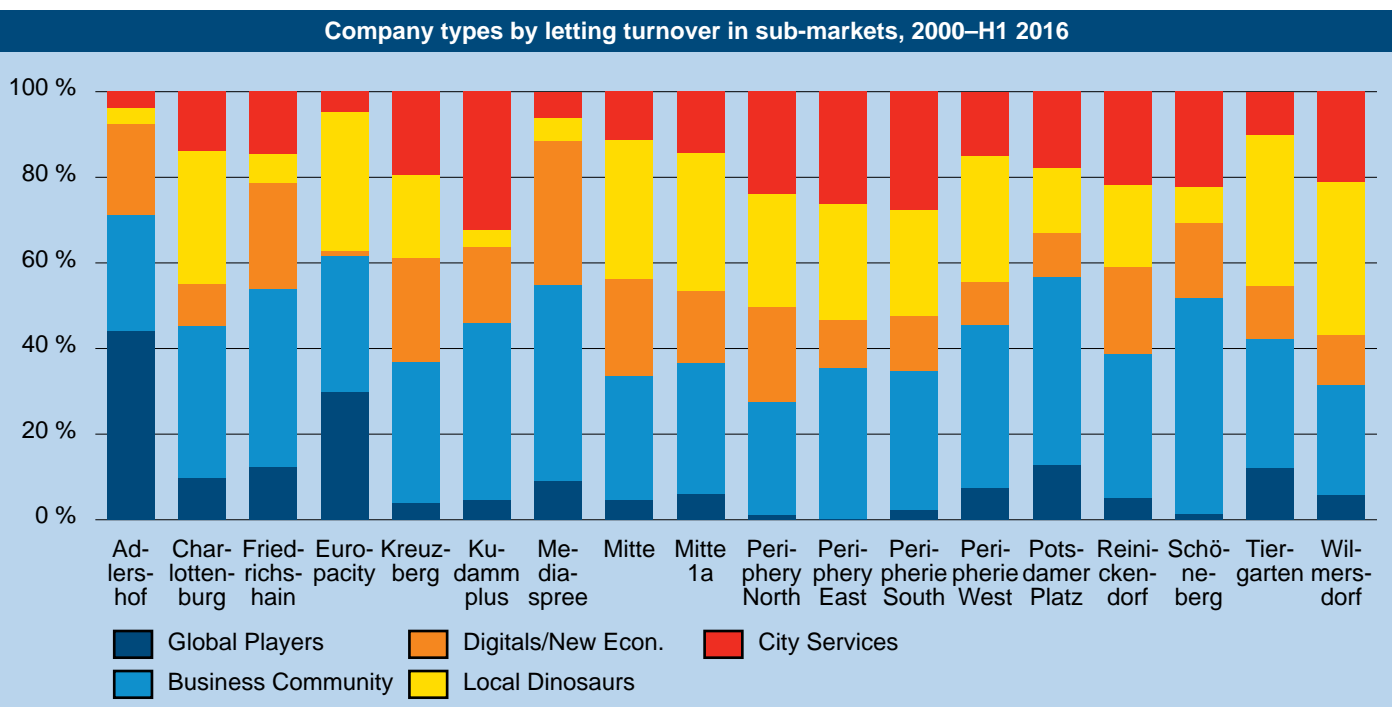


Source: bulwiengesa

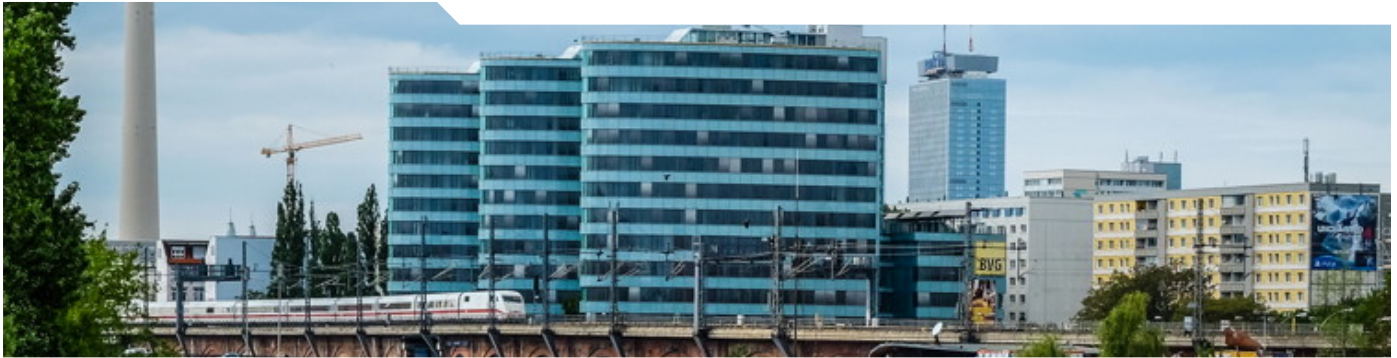
**Summary**

The analysis by company type provides us with a bird's eye view. For instance, the constant transformation of market structures into one heterogeneous structure becomes highly significant. The analysis also reveals a **market** that still has little international orientation in a **stage of transformation**.

The structures of the sub-markets more or less meet the typical requirements of the user groups. This provides an overview of the **regional focal points of individual company types** which is particularly significant with regard to digital companies (sub-markets in trendy locations) and global players (inner-city locations). Even here the classic structures are in a state of change due to the current market landscape.



Source: bulwiengesa



## 4 LEADING SECTORS IN BERLIN

Following on from the more blanket approach to company types, this section will analyse specific sectors that are of significance to the office property market in more detail.

The typical leading sectors of established national and international office property markets such as auditors, legal service providers and corporates, i.e. large, global companies in the production industry, will be subjected to a detailed analysis and their development in Berlin will be evaluated.

Additionally, the analysis will include the influential sectors of digital companies (similar to the digital company type) – identified through the turnover structures and special factors – and government employees.

Criteria of a leading sector
<b>Employment</b>
Share of employment above average
Stable and high employment growth
Positive employment forecast
High labor demand
High potential of applicants
<b>Letting turnover</b>
Share of letting turnover above average
Stable and high demand for office space
Positive demand forecast

Source: bulwiengesa from Federal Employment Agency

These classifications deviate somewhat from classification WZ 2008 of the Federal Statistical Office.

On the one hand the categorisation is more specific, e.g. with government employees, but on the other hand digital companies and even corporates represent a cross-section that goes beyond the limits of WZ.

Like with company types, this analysis will make it possible to explain general socio-economic trends more clearly.

### 4.1 Leading sectors with varying market relevance

The analysis of office employees in the relevant leading sectors highlights varying dynamics in their development.

With regard to the numbers of office employees, auditors, legal service providers and digital companies are exhibiting constant growth and currently account for around 23% of all office employees in total.

Likewise, the total number of government employees has increased, although the dynamism is below that of the total growth in the number of office employees, which is why their percentage has decreased.

No statistical data are available for the cross-sector grouping of corporates. The development of the number of employees in the manufacturing industry appears strained overall, which is also affecting the structures of corporates.

Proportion of leading sectors in office employment in Berlin					
Leading sectors	2000	2005	2010	2015	2020 forecast
Auditors & legal service providers	6.5 %	7.8 %	8.5 %	9.1 %	↗
Digital companies	10.3 %	11.4 %	12.4 %	13.6 %	↗
Government	k.A.	5.1 %	4.6 %	4.3 %	↗

Source: RIWIS

Despite all their differences, the leading sectors together have a positive outlook with regard to office employees.

Office letting turnover is another key indicator for gauging the influence of the leading sectors.

It has been distinctly volatile for both the government and corporates. For the government, it has been driven by major individual agreements that caused the volume to increase dramatically, including in 2016. For corporates, the turnover is highly consistent with the economic developments.

Peaks in the turnover of legal service providers are influenced primarily by major agreements on the part of auditors. However, the margin is relatively narrow as the volume of turnover is below average compared to the number of office employees.



Source: RIWIS / bulwiengesa

The increase in the significance of digital companies with regard to letting turnover increased even faster than the number of their employees. Within ten years, digital companies have been able to make up for more than one third of the total volume of letting turnover.

**Proportion of total turnover**

Leading sectors	2000-2004	2005-2009	2010-2014	2105-2016	2020 forecast
Auditors & legal service providers	6.0 %	4.7 %	4.1 %	5.0 %	↗
Corporates	7.8 %	9.4 %	6.7 %	3.5 %	↗
Digital companies	5.2 %	7.0 %	18.8 %	37.7 %	↗
Government	5.1 %	8.6 %	8.0 %	14.2 %	↗

Source: RIWIS / bulwiengesa

#### 4.2 The varying structural features of the leading sectors

##### Auditors and legal service providers

Berlin is home to numerous well-known law firms and branches of major auditing firms.

The latter have recently been steadily, dynamically increasing the number of their employees, a fact reflected in their proportion of all office employees. KPMG is the only one of the Big Four in this segment to have its German headquarters in Berlin.

The breakdown of letting turnover also demonstrates that the significance of the sector, especially compared to the early 2000s, has fallen noticeably. Given the significantly higher, increasing proportion of office employees, there is potential here for growth.

Given the location-specific requirements of this user group, its demand focuses primarily on prestigious office locations in the central areas of the city. Mitte, Mitte 1a, Potsdamer Platz and City West have always been preferred office locations.

Thanks to its location and the quality of its new buildings, Europacity has also recently established itself as a significant sub-market for this user group.

The current market environment is also exerting an influence. The low vacancy rates, especially in central locations, is making it increasingly difficult to find suitable space, causing growth strategies to focus on new buildings.

##### Corporates

Global companies operating in the manufacturing industry are rare in Berlin following historical developments.

The missing industrial basis, both amongst medium-sized enterprises and global players, is one of the reasons for the slow economic development of the capital and the lack of a boom in the past. This caused numbers of employees to not only stagnate, but even to decrease over an extended period.

As a result, the relevance of corporates on the office property market was relatively low even if they generated exceptionally high volumes during economic booms such as in 2007 and 2008.

No new classic industrial companies are expected to establish themselves in the German capital. However, there are individual growth cores, especially in the research-oriented technology sector, that also receive political support. These provide development opportunities that are highly relevant both in economic terms and with regard to the office property market.

The headquarters of this leading branch are spread over central and prestigious locations, often both new buildings and locations close to frequently peripheral production locations.

Demand groups are expected to focus more on locations with high development potential and the right conditions. This includes development areas such as Mediaspree and Europacity as well as Adlershof, which has excellent conditions for technology-oriented companies to expand in particular.

### *Bund*

The traditionally highly represented public sector in Berlin used to be one of the most influential demand groups in the office property market. Besides state institutions, the Federal Government is one of the most dominant market players.

Unlike the total number of office employees employed by the public authorities, the number of civil servants has actually increased. Nevertheless, the proportion is decreasing as its rate is slower than the growth of the overall market.

Following a steady decline, the volume of turnover is once again on the increase. Given the ongoing relocation of ministries from Bonn to Berlin, the demand for space is expected to remain significant in the short and medium terms. However, this often ties in with buildings owned by the government, some of which are even new.

Most government institutions are focusing on the inner-city centre in the east of the city. Inner-city locations such as Mitte 1a and the vicinity of the main station, not to mention suburban areas with city qualities such as Mitte, represent the regional focal points.

### *Digital companies*

Digital companies currently belong to the most dynamic leading sector in Berlin by far. These developments are reflected in the office employee structures and in letting turnover.

The key factor is that these developments are spread all across the economy. The TMT segment cannot be considered on its own; in the fields of services (e.g. Helpling, Wimdu), financial services (e.g. Zencap) and retail (e.g. Zalando), companies with a digital approach are also gaining significant market shares.

The new key locations and concepts are of particular significance in this context. The preferences of digital companies differ greatly in terms of locations and working environments. Urban locations in residential areas far from classic office locations are once more in demand.

Office properties with traditional cubical concepts are seen as a thing of the past. Demand is now focused on flexible office spa-

ces and open, communicative concepts in properties with old industrial charm.

Co-working areas are also playing an important role for founders at the moment. These provide users with high flexibility whilst improving the potential of generating synergies with other users. These properties are normally situated in popular trendy locations. However, new providers such as WeWork which also rent out space in top central locations and make it available to users have established themselves recently.

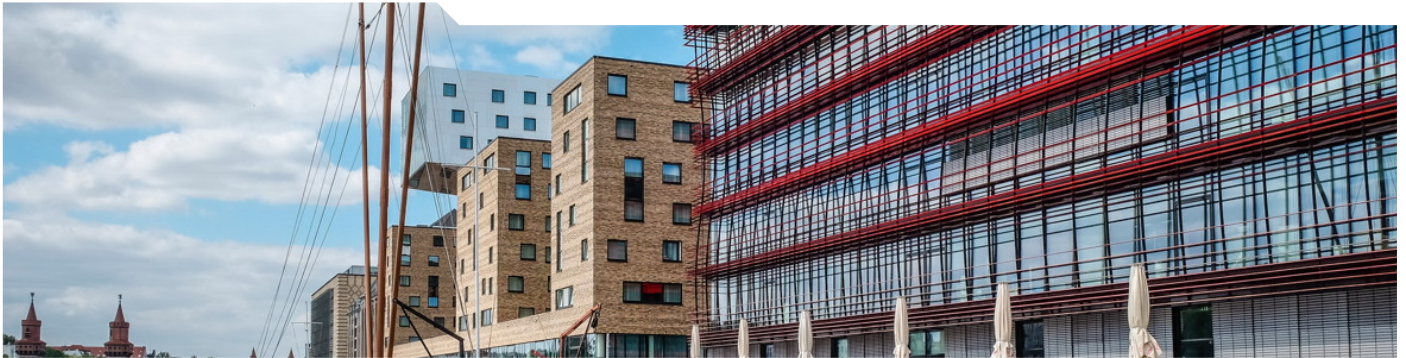
### **Summary**

*The leading sectors in Berlin, i.e. fields of employment that are of particularly high relevance to the market, are characterised by varying rates of dynamism.*

**Digital companies** which are spread across almost all sectors and which help dynamically shape the market landscape are of particularly **high significance**.

*Although government institutions are consolidating their influential market positions once more, especially in the recent past, other leading sectors are continuing to show potential for recovery.*

*The market shares of traditional leading sectors of national and international office property markets such as **auditors, legal service providers and corporates** as well as **global industrial companies** remain relatively low in Berlin.*



## 5 ECONOMIC STRENGTH

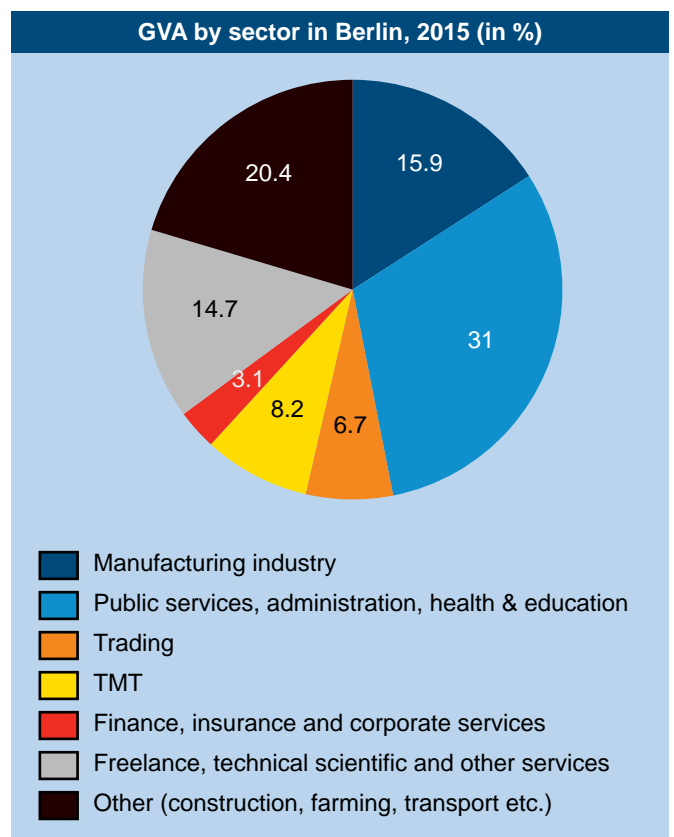
Gross value added (GVA) is one of the most important indicators for evaluating the economic capacity and therefore future performance of office property markets. It is determined based on the total goods and services and provides insights into the productivity of individual sectors.

### *Steadily growing gross value added*

Berlin is currently still in a phase of economic recovery. The GVA increased by an average of 2.9% p.a. over the past 15 years compared to the national average of 2.8%. The GVA is expected to increase further by the forecast horizon in 2020. The forecast growth in Berlin is 1.6% p.a. and is therefore slightly above the national average of 1.4% once more. The GVA per earner will therefore settle at the level of the national average by 2020.

### *The share attributable to boom sectors is growing slowly*

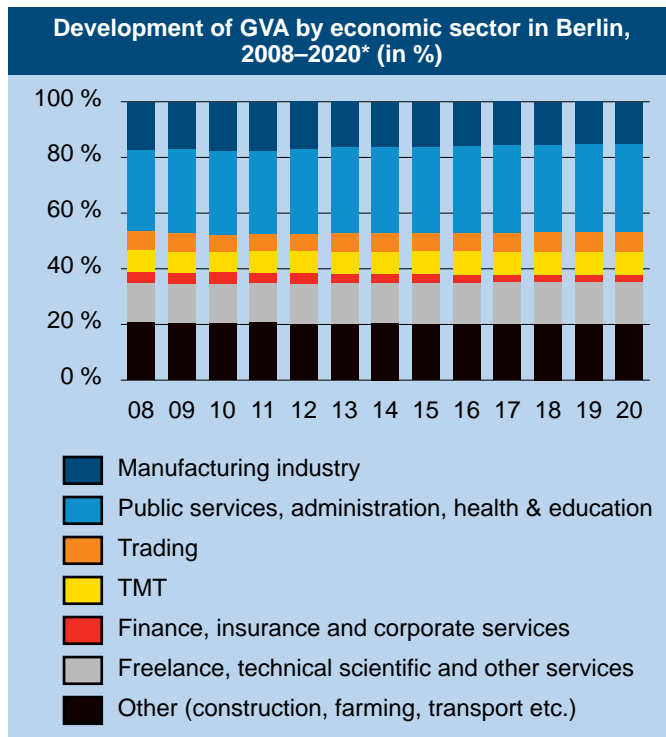
The GVA structures are highly influenced by the service sector in Berlin. Public service providers in the fields of management, health and education, which account for a total of one third of the GVA, have the largest proportion by far.



Source: bulwiengesa from Federal and State Statistical Offices

The manufacturing industry remains far below average. At around 16%, its proportion is around half of the German average of around 30%.

The ongoing structural change has been reflected in the developments of recent years. For instance, the significance of the manufacturing industry has steadily declined whilst the service sector was able to steadily increase its market shares. The booming TMT segment also experienced slight growth following the dynamic increases in the number of employees.



Source: RIWIS; \*forecast from 2015

According to current economic calculations, the development trends of recent years will continue in the short and medium terms.

Increased growth, especially in the TMT, freelance, technical, science and other service sectors as well as slight growth in the public sector stand in contrast to declines in the manufacturing industry and finance and insurance sectors.

The GVA breakdown is also significant when the largest companies in Berlin are considered. Besides companies in the processing industry and transport sector, Charité and Vivantes in particular are two companies operating in the health sector which are helping to shape the Berlin market with high percentages of the GVA.

**The 20 largest companies in Berlin by employees, including in the start-up sector, 2015**

Company name	Sector	Number of employees in Berlin
Deutsche Bahn	Logistics, transport	19,466
Charité	Health	16,800
Vivantes	Health	14,714
BVG	Logistics, transport	13,776
<b>Start-ups Berlin</b>		<b>13,200</b>
Siemens	Processing industry	11,818
Deutsche Telekom	Telecommunications	6,833
EDEKA	Trading	6,831
Deutsche Post DHL	Logistics, transport	6,500
WISAG	Technical services	6,466
Daimler	Processing industry	6,203
Dussmann Gruppe	Trading	5,950
Kaiser's Tengelmann	Trading	5,908
Vattenfall	Energy, supplier	5,500
BSR	Processing industry	5,379
SECURITAS	Technical services	5,160
METRO GROUP	Trading	4,836
Axel Springer AG	Media, telecommunications	4,833
Gegenbauer	Processing industry	4,744
Berliner Wasserbetr.	Energy, supplier	4,523

Source: Berlin Partner

However, due to their employee structures not all major companies have the same relevance to the office property market.



Deutsche Bahn, Siemens, Daimler and Axel Springer AG are some examples of note in this context. Start-ups have also gained high relevance to the office property market in a short space of time. The majority of employees in start-ups are office employees.

These are also some of the most prosperous companies in the city and are therefore considered high performers by landlords.

Most prosperous companies based in Berlin			
Company name	Turnover 2014 (Mrd. Euro)	Sector	Employees
Deutsche Bahn AG	39,720	Transport	306,966
Daimler Financial Services AG	15,991	Financial service provider	8,878
Vattenfall GmbH	14,654	Energy supplier	16,105
Total Mineralöl und Chemie AG	12,700	Petroleum, energy	8,809
50Hertz Transmission GmbH	8,126	Network operator	816

Source: Die Welt

*The heterogeneous and homogeneous location requirements of high performers*

The companies have highly different structures and are therefore not only compared with one another; some are also characterised by highly different location requirements within their group.

However, basic structures can be identified that often cause the companies to be less mobile and enter into long-term rental agreements. Owner occupation plays a key role in this context.

Another structural feature is the concentration of front office business in reputable city areas, often in new buildings too, whereas back office business tends to be based away from central locations.

Examples include the main offices of Deutsche Bahn (Sony Center), Total and 50Hertz (each in new buildings in Europacity) and Daimler Financial Services (Mediaspree).

*Opportunities for growth exist*

The rapid reduction of vacancy rates in central locations in combination with the low level of construction activities are continuing to limit the opportunities of companies to relocate. Therefore, extensions to rental agreements are not unusual, such as in the case of Deutsche Bahn.

As a result, not counting new buildings, spacious alternatives are currently only to be found on Potsdamer Platz which has a significantly large volume of space. In particular, the development areas Europacity and Mediaspree are playing a central role as they still provide sufficient potential for companies to expand.

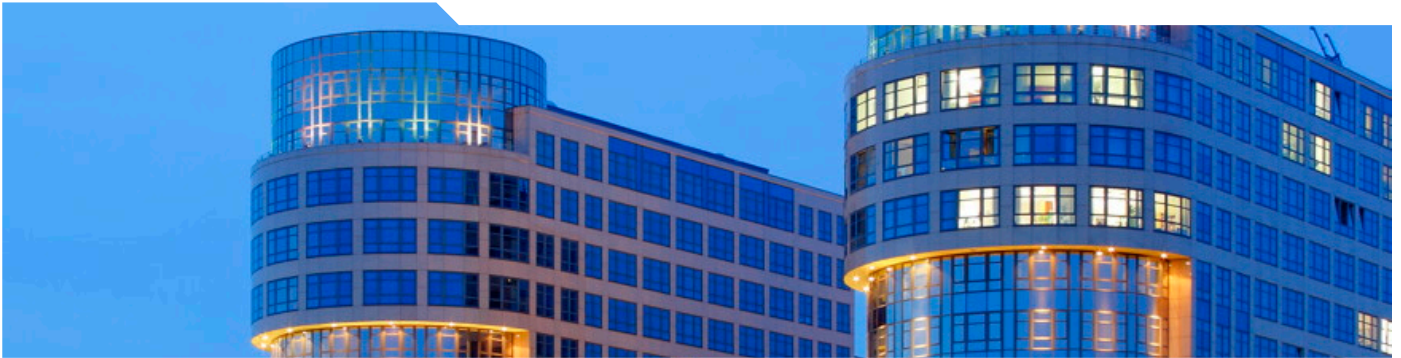
Other locations in the city are also viable for company headquarters due to their potential for available space combined with their good infrastructure and distinguished character. With the area surrounding Alexanderplatz, Berlin Mitte is considered to have particularly high potential, as is the area surrounding Südkreuz railway station.

### Summary

*Berlin is still in a state of economic recovery which will continue in the next few years. The structures remain heavily influenced by public services. However, **corporate services and the TMT sector** are slowly but surely **increasing in significance**.*

*Particularly high-performing tenants remain concentrated in other segments such as the processing industry – which has traditionally been weak in Berlin – or the energy and transport sectors.*

*Despite the increasing scarcity of supply, their structures continue to provide **good opportunities for growth**. Especially in light of the continued availability of land, even in central locations, the opportunities for continued growth in the medium term are good.*



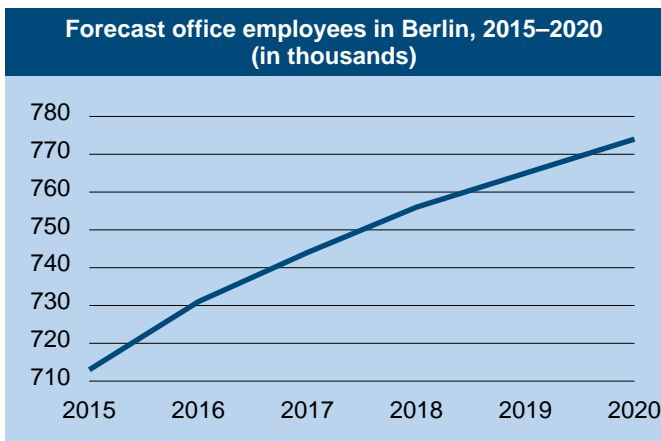
## 6 OFFICE EMPLOYEES NUMBERS FORECAST BY 2020

Building on the various regional economic perspectives of the previous section, this section will make a sound econometric forecast with a medium horizon of five years. The forecast will be based on statistical employment data and effectively define the regional economic corridor within which continued development can be considered most likely.

### *Increasing numbers of office employees by 2020*

In recent years Berlin's economic basis has improved steadily in line with its population growth, leading to clear increases in income and purchasing power.

Whereas 1.85 m earners were employed in the Berlin job market in 2015, the number will increase to 1.93 m by 2020. These developments will also influence the office property market. Based on 713,000 office employees at present, a dynamic increase to just below 775,000 office employees is expected by 2020.



Source: RIWIS / bulwiengesa from special analysis of the Federal Employment Agency

### *Four growth sectors for growth in the number of office employees*

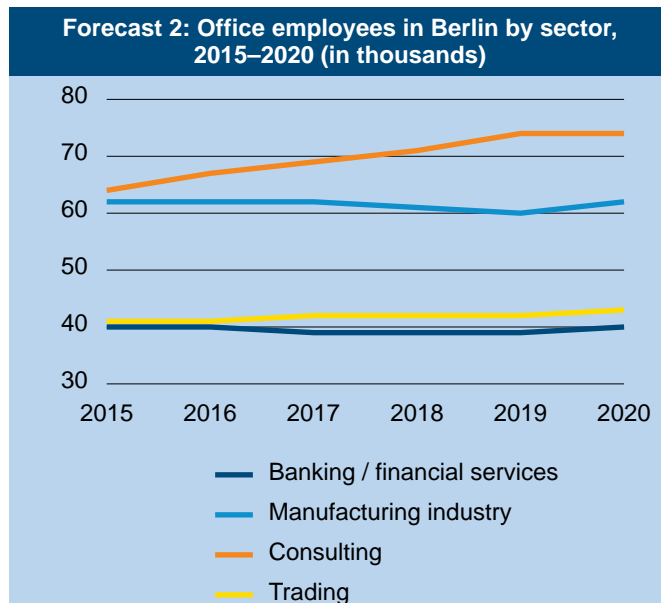
Certain growth sectors that will shape the office employee structure of the future stand out within the 2020 forecast horizon. The following sectors are particularly dynamic:

- Technology, media and telecommunications (TMT)
- Consultation
- Other corporate services
- Education

This is due primarily to the ongoing and increasing tertiarisation and digitisation of Berlin's economy. Within these sectors, individual growth fields such as the new media start-up scene and consultancy services in the context of national and European politics will drive the growth most of all. Additionally, growth drivers with no digital background at all, resulting from the foreseeable steady population growth, can be expected for services in the health and social work sectors.



Source RIWIS/bulwiengesa



Source: RIWIS/bulwiengesa

Extraordinary growth fields also exist in sectors whose growth rates are not so high. For example, in the manufacturing industry, which will not be considered a growth sector for a long time, the segment of innovative, technology-oriented production is a sector that already has growth potential and is therefore driving demand, even if at an extremely low level. The public authorities are also expected to slowly yet steadily increase the number of office employees and balance out the declines of recent years. One reason for this is the relocation of government ministries from Bonn to Berlin that is expected to continue.

*More than 50% of the growth in three sectors*

Just three sectors, namely TMT, other corporate services and consultation, will account for more than 50% of the absolute growth in office space in Berlin by 2020. These are followed by health, social work and education.

Therefore the exact trend observed between 2006 and 2015 (see section 1.3) – in the econometric model – is continuing. Albeit not as strongly: Berlin has retained a clear lead over other German cities, yet the model includes negative factors such as:

- Slower growth of the number of office employees in Germany due to demographic change
- Slower growth at the end of the national economic cycle
- Increasing ‘metropolitanisation’ of Berlin’s economic growth beyond state borders

Sector	Absolute development from 2015-2020	Development from 2015-2020 in %
<b>TMT</b>	<b>13,743</b>	14.3 %
<b>Other corporate services</b>	<b>11,310</b>	12.8 %
<b>Consulting</b>	<b>10,022</b>	15.6 %
Health & social work	9,237	11.1 %
Education	5,363	13.2 %
Trading	2,086	5.1 %
Public administration	1,989	1.7 %
Hotels and restaurants	1,083	15.0 %
Agriculture & forestry	-2	-0.3 %
Vehicle sales and repairs	-162	-4.8 %
Banking and financial services	-296	-0.7 %
Manufacturing industry	-403	-0.6 %
Logistics	-2,947	-22.3 %

Source: RIWIS / bulwiengesa

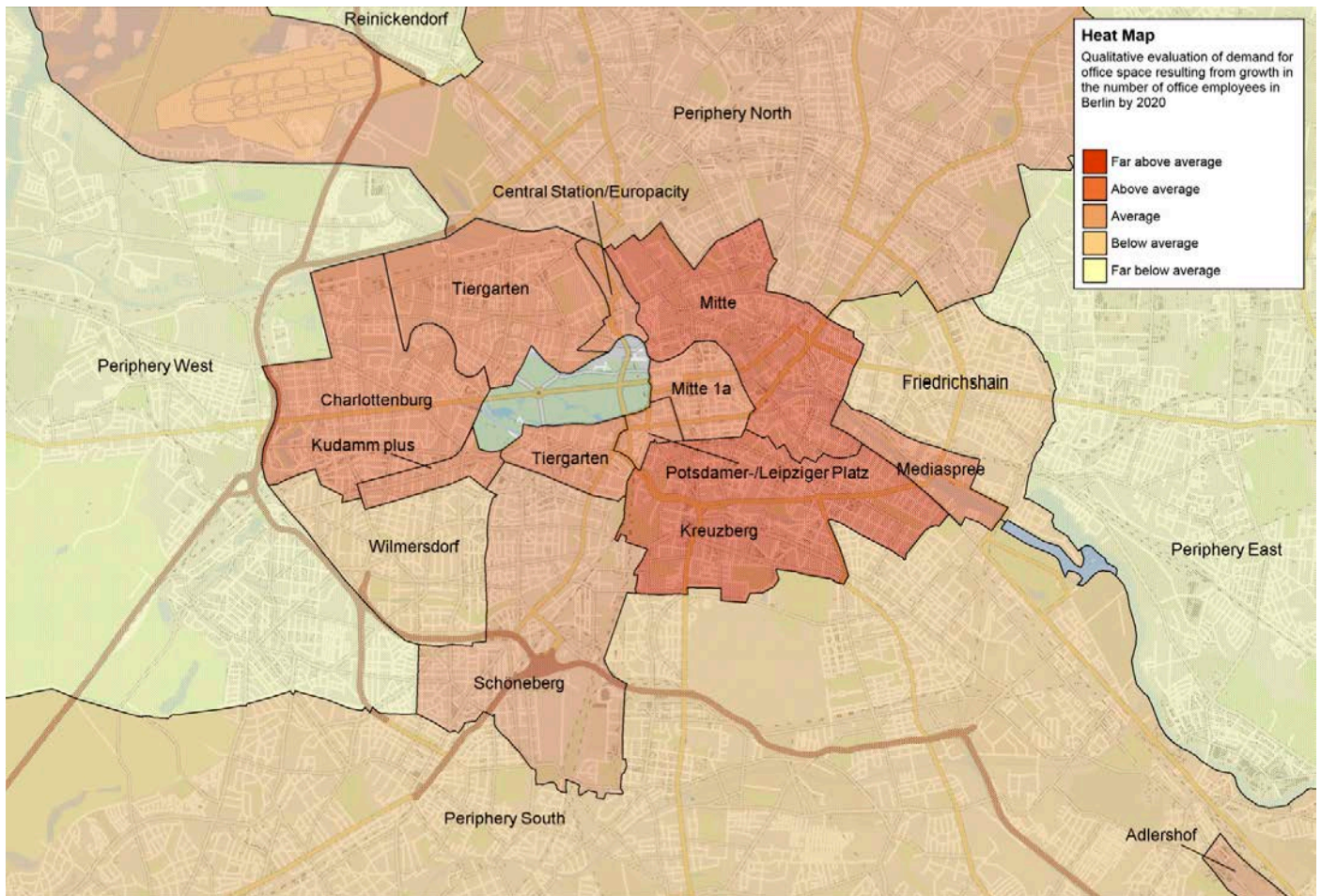
*The varying suitability of sub-markets for the sectors*

With few exceptions, the three main growth sectors have typical characteristics with regard to their demand preferences. Based on the traditional structures and current availability of space, Berlin’s office sub-markets have varying degrees of suitability for accommodating continued growth in the number of office employees, both now and over the next five years.

*Suburban sub-markets and peripheral locations are more in demand*

Development trends can be derived solely on the basis of the typical requirement profiles of the most significant sectors combined with the profiles of the sub-markets.

The growth sectors mainly prefer suburban sub-markets with excellent (public transport) connections and urbanity, in which regard vital ground floor zones, residential use and often fragmentation of use are often skated round. Exceptionally high overall demand dynamics are expected for the Mitte, Kreuzberg and Charlottenburg sub-markets.



The Mitte sub-market which stretches from Reinhardstrasse to Alexanderplatz to Janowitzbrücke greatly benefits from its size with more than 2 million sqm lettable space and its highly diversified local qualities. With its proximity to the inner city, well-established residential areas and trendy neighbourhoods, it attracts a wide range of service providers as well as designers and developers from the TMT sector.

Kreuzberg has greatly benefited from the changes in demand in recent years. In particular, old industrial properties are boosting its turnover. Primarily start-ups from both the TMT and service sectors are dominating the demand structures.

Charlottenburg has similar structural characteristics, although the proportion of traditional office space is significantly higher. The generally high volume of office space, locations on the banks of the Spree and proximity to the city appeal to a broad public. If we consider sectors individually, we can see that other locations also have significant market shares.

For example, City West is highly coveted by consulting firms; the same applies to Mitte 1a with its prestigious 1a-rated locations such as Pariser Platz, Gendarmenmarkt and Friedrichstrasse.

Furthermore, the two large inner-city development areas Mediaspree and the main station will generate significant demand with their new buildings in the future. Whereas Europacity has positioned itself as a premium location for headquarters, Mediaspree has a wide range of different sectors that serve headquarters and fragmented structures alike.

As the most dynamic growth sector, Kreuzberg, Mitte and Mediaspree as well as Peripherie Nord (especially Prenzlauer Berg) and Adlershof are particularly relevant to the TMT sector.

Adlershof is dominated by classic technology companies, some of which are directly linked with production companies in the optical and laser industries. In contrast, Peripherie Nord is a prime location for software companies which generate demand in trendy inner-city locations in particular.

*Space is becoming increasingly scarce*

All of the aforementioned sub-markets have extremely low vacancy rates. The volume of available space has decreased noticeably in recent years. Given that the level of demand is expected to remain high in the future, the project pipeline for new potential offices is of considerable significance.

These project data show that by 2020, most of the sub-markets will have a large enough project pipeline and enough available space to meet the future demand modelled above.

However, in some particularly popular locations such as Kreuzberg and Mitte the future relative balance of supply and demand is somewhat different. In these locations the gap and the excess demand are increasing appreciably. However, this aspect is covered somewhat by the hard-to-forecast tenant fluctuations. One example is the relocation of Allianz which will free up around 80,000 sqm lettable space in Mediaspree by 2019.

### *Bubble or no bubble?*

The econometric model and the office employee forecast for 2020 are based on the assumption that the economic developments in Germany and therefore also in Berlin, which is growing at an above-average rate, will slow. These prosperous developments have enough real economic support to almost completely rule out the risk of a bubble scenario.

Section 7 below once again refers to the susceptibility of the TMT sector, start-ups and larger, mature digital companies. This regional and sector-specific economic risk must be viewed separately from a macroeconomic real estate bubble fuelled by the financial markets.

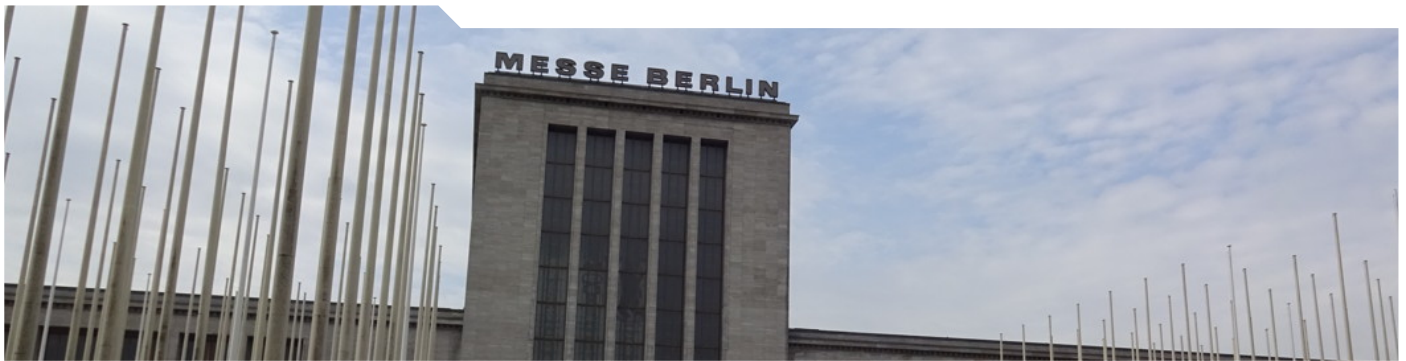
In the medium term, Germany's position in the Eurozone and the strong economic structural change of Berlin, driven by tourism, culture and start-ups, will serve as the cornerstones of the above forecast model. Combined with the relatively low availability of new building space on both the office and residential property markets, in real economic terms a continuation of Berlin's employee structure and dynamism trends serves as a reliable planning basis.

### Summary

*The **increase in the number of office employees** of recent years **will continue in the coming years** too, although it will be less dynamic. The TMT, consultation, other corporate services, health and social work sectors will continue to serve as growth drivers.*

***Suburban sub-markets** with excellent connections, high urbanity and sufficient potential with regard to buildings and space in particular will attract the **growing demand for office space**. The **Mitte sub-market is at the heart** of ongoing office space developments, ahead of the other sub-markets.*

*The econometric model for forecasting office employee growth is based on a **stable situation involving a strong economic cycle** in Berlin and in Germany as a whole nearing its end. A 'bubble market' with no underlying real economic foundations would have a different structure in terms of its supply (new office buildings).*

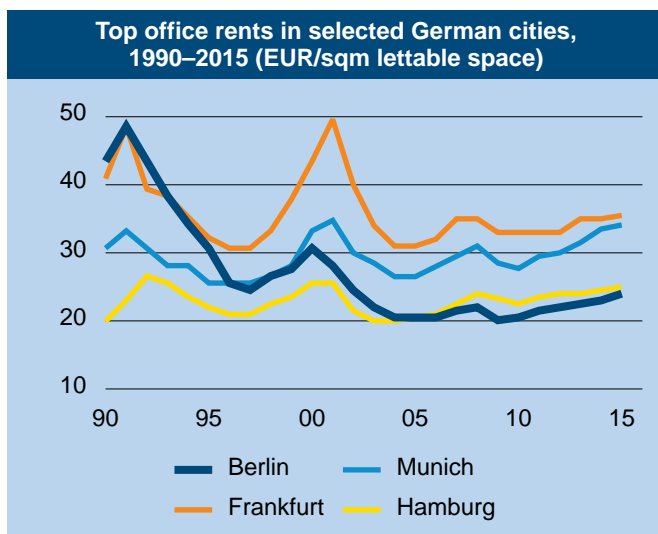


## 7 RISKS

A risk analysis is invaluable for a sound forecast that can make investments in Berlin's office property market and strategic courses for metropolitan development reliable in terms of urban planning. A clearly derived profile of opportunities and risks has already been factored into the forecast model in section 6. However, additional comments on three factors are helpful and also support the outlook beyond 2010 (see section 8).

### *Economic downturn*

Office property markets are always closely tied to the economy, which is reflected in a distinct cycle of standard top market rents in particular. In the age of globalisation, markets are increasingly strongly affected by global events as well as national developments. Taking Germany's four largest office property markets as an example, the past two decades alone have shown how closely booms and crises follow one another and how closely the developments on the office property market are intertwined.



Source: RIWIS / bulwiengesa

In Berlin's office market, the bursting of the dot-com bubble (2000/2001) and the global financial crisis (2008/2009) caused significant drops in rent and a reduction in demand for office space. Nevertheless, the last crisis had less of an effect than in other national and international office market metropolises. On the one hand, this was due to Germany's robust economy and the relatively strong position of Germany in the Eurozone. On the other, in those years Berlin's economic structures were relatively stable as they were just starting to undergo structural change and there were few employees in the financial and consulting sectors.

Beyond Germany's highly investment-driven property market, the relative cyclical growth of Berlin's office property market in light of the strong employment dynamics in the past ten years shows surprisingly little upwards force or signs of boiling over. A decrease in the number of employees, as was the case when office rents decreased, is practically only conceivable in the medium term following a national economic downturn. It is therefore a risk that cannot be ruled out, but which

- a) does not appear relatively serious in a European or global context at the moment
- b) is not a risk specific to Berlin

With consideration for all the factors described above, the chances of a significant economic crash occurring in Berlin are currently lower than in other German and European cities. In contrast, the chances are high that the still relatively low economic strength will increase significantly in the same manner of previous years.

This will also render measures necessary in order to prevent future regional economic crises and generate opportunities for times of renewed growth. Politicians are responsible for continuing to support a broad economic basis and making sure the general conditions are conducive to safe, appropriate transactions by private companies.

*Will the 'start-up train' keep rolling?*

Digitisation is changing not only economic structures, but also the competition between locations for companies and employees.

In recent years Berlin (alongside London) has established itself as Europe's start-up metropolis. In pursuit of its objective the city was able to benefit from outstanding IT-oriented universities, great global favour (tourism), favourable rents, the availability of commercial and office space in highly urban areas and highly qualified experts.

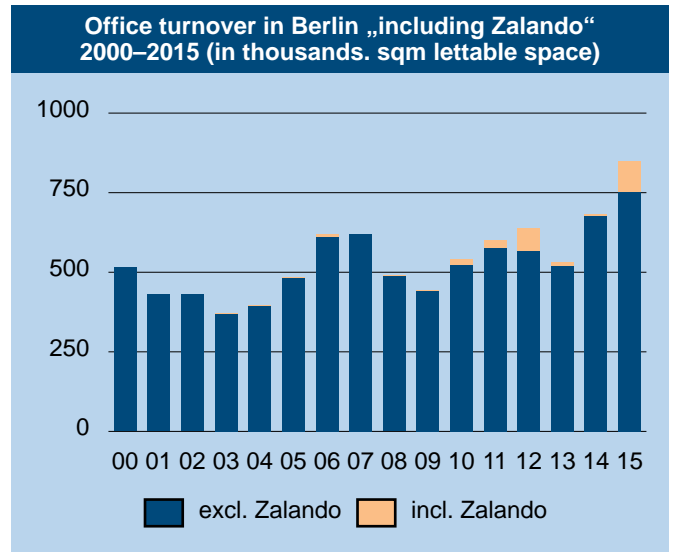
However, will these developments prove sustainable if the seed money, i.e. the wealth of startup capital of entrepreneurial investors, runs out, if property prices increase sharply and the start-up sector begins to focus on other cities?

Many cities are striving for the favour of founders, designers and developers. Due to globalisation locations no longer play a decisive role, making employees significantly more flexible when it comes to relocating. Cities such as Wrocław, Athens and Istanbul (before the attempted coup and its consequences) are already being considered as new start-up hotspots.

The arguments for and against sustainable development are flying round Zalando and the holding company Rocket Internet in particular. However, in this example we can also see – as in 2015 when Zalando's market share increased to 11% of the total letting turnover in Berlin – that the level of risk was low throughout. Without Zalando or other major start-ups and digital companies, the letting turnover for offices in Berlin would have been lower.

However, the exceptional significance of specific sectors is traditionally considered a necessary risk of mature, large office property markets. London and Paris (see section 1) as well as Frankfurt and Munich (see above) also react cyclically to letting turnover and top and average market rents because they accommodate – and later lose – successful companies operating in growth sectors.

Even if digital technology has become a particularity of Berlin, the maturation of Berlin's office property market and the convalescence of its economy are processes that do not solely depend on it.



Source: RIWIS / bulwiengesa

Nevertheless, it is important that steps are taken by politicians and private companies alike to maintain favourable general conditions for start-ups and the establishment of digital companies in Berlin.

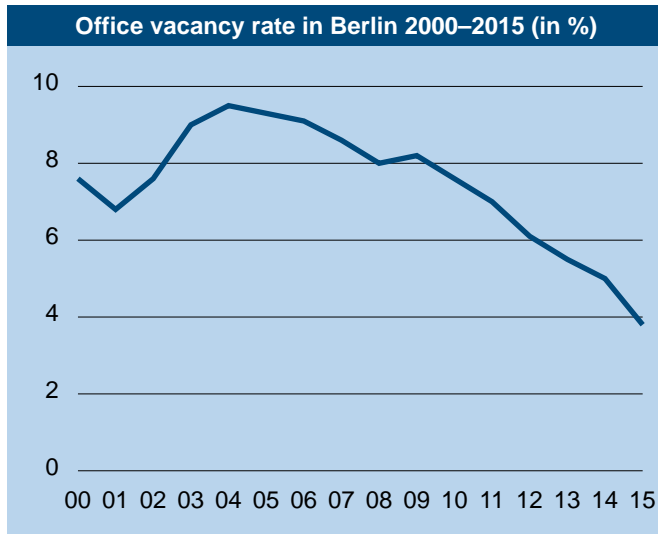
For the real estate industry, it is primarily a matter of continuing to provide start-ups with space that meets their requirements. To this end it is necessary to duly support young entrepreneurs who prefer short contractual terms and low space costs as they are members of a significant demand group to the office property market.

Additionally, politicians must ensure that space in the vicinity of universities or in special urban districts can be made available for start-ups by city planners. However, they must actively avoid creating a homogeneous culture for the digital economy.

*Low vacancy rates stifling development*

With current vacancy rates of under 4%, relatively speaking there has not been as little space available in the Berlin office property market since the mid 1990s. The consistently high level of demand, driven by the relocation and growth of companies as well as strong growth in the number of office employees, will continue to reduce the volume of available space. This trend will be exacerbated by the fact that construction work has been trailing behind supply in a striking fashion for some time.

The scarcity of supply is particularly distinct in central locations and is already obstructing the attempts of companies to expand. If the situation worsens, it threatens to hamper the dynamism of Berlin's office property market and economic development in the long run.



Source: RIWIS / bulwiengesa

**Summary**

Economic risks and risks relating to city development politics exist in Berlin as in every large, advanced office property market. However, for various reasons the latter currently **outweigh the opportunities** and make the **forecast model** for 2020 and beyond appear **sufficiently conservative**.

Global challenges such as economic fluctuations, the questionable longevity of the start-up boom and the extremely low relative office vacancy rates in the city are factors that can be bypassed.

It is necessary for **private companies** and **politicians** to counter these risks with suitable structures and offers and by creating the right conditions. Only through collaboration can these **risks be limited** and the long-term development of Berlin's office property market spurred on.

The opportunities for the state of Berlin to manage and satisfy a highly demand-driven office property market are indeed limited, yet they could be made effective in the long term, especially on a qualitative level, through:

- a) The provision of state-owned office properties for the free market – especially in central and popular locations
- b) The granting of more comprehensive, less-limited building permits in light of Berlin's status as a metropolis
- c) A clear position on the part of city developers in favour of (high) office densities at public transport junctions

In the short and medium terms, however, project developers and investors are responsible for generating an increased volume of construction. With a few exceptions (see section 8), the general conditions are generally favourable for this, even if the intensity of competition for land has increased steadily due to the prosperous residential segment.

To a certain extent, increasing rents combined with high demand and low vacancy rates also raise the question of speculative projects.





## 8 EXPERT OPINIONS ON THE DEVELOPMENT OF THE ECONOMY AND OFFICE PROPERTY MARKET

For varying views on the future office property market and office employees in Berlin, experts in various fields have provided extra opinions on this forecast. This way we can:

- a) Evaluate developments beyond 2020 and
- b) factor in qualitative evaluations beyond the – previous – statistical structures.

**Professor Martin Gornig**  
Economist  
DIW Berlin, TU Berlin

Professor Gornig considers the development of Berlin's office property market from the perspective of a regional economist who focuses on the structural particularities of Berlin's economy (see DIW Berlin Weekly Report 29/2016).

According to this viewpoint, digital companies are likely to remain one of the most significant driving forces in Berlin. He believes that many companies are on the verge of a major expansion. If several companies manage to expand, the dynamics in Berlin will noticeably increase again.

Additionally, he believes that Germany has been gaining political and economic significance in Europe since before the Brexit referendum. The attractiveness of Berlin to companies aiming to do business in Europe will increase 'not insignificantly'. From a quantitative perspective, branches will tend to be more important than headquarters. In his estimation, most plans to relocate headquarters from London to Berlin would fail.

It is hard for him to say whether or not Berlin's economy will continue to behave in cycles in the same way as London. The strengths of cycles depend not on demand, but on prices and

**Sharply increasing dynamics expected**  
*The large boosts from digital companies are great opportunities. Potential space should be created on a political level*

**Dr. Stefan Franzke**

*Location promoter  
Berlin Partner für Wirtschaft und Technologie*

Dr Franzke is the Managing Director of the Berlin-based developer and in this capacity seeks ways to promote Berlin as a location.

Dr Franzke emphasises that even in 2016, strong economic growth is evident in Berlin and was reflected in around 144 projects for him and his team in the first half of the year, as well as more than 4,200 new jobs as a result of relocations and expansions. Besides initial interest in relocating on the part of Turkish companies in connection with the new political situation there, it was mostly classic, globally active companies from Germany that relocated specific operations and not their headquarters to Berlin, most of which were looking for a joint venture for digital business models in Berlin.

According to Dr Franzke, this development does not instantly translate into new jobs, but certainly economic strength in the form of potential customers. Nevertheless, even a company like Schindler with its digital business could create 100 new jobs.

Naturally, positioning in the location-based competition between European cities is of key significance to Berlin Partner. The reputation of the 'Freedom City' could currently still use a lot of help, not least as the population speaks good English, unlike in other European metropolises.

In order to succeed in the competition for locations, it is important that all parties act quickly and efficiently. Suitable commercial space and sufficient residential space are also crucial factors.

**Strong economic growth**  
*Most German SMEs are seeking digital concepts in joint ventures with Berlin-based professionals*

### Christian Leska

*Office lessor / consultant  
Savills real estate consultants*

Christian Leska runs an office which casts Berlin's office property market in a different light. His knowledge of the developments runs down to the company level which, besides the statistical scales, also provides insights into preferred space qualities.

According to Christian Leska, Berlin-based digital companies would dominate the office property market in the next couple of years anyway; not due to influxes, but mainly due to the current market players expanding. According to his data, technology companies accounted for 37.5% of the net absorption in Berlin in 2015. He cautiously predicts that the fintech sector might be stimulated externally by the Brexit referendum. According to his information, there are currently just ten requests for 400–800 sqm for the purposes of a relocation from London to Berlin in 2017.

More than new company headquarters that rely on a major international airport in the long term, Christian Leska expects seven more Federal Ministries and 20 public authorities to move from Bonn to Berlin and actively participate in the market in the coming years. With around 5,000 civil servants at present, this would be an additional space requirement of around 125,000 sqm.

With regard to cyclicity, the property adviser refers to an existing five-year letting turnover cycle which will cause the office property market to grow again in 2019. However, the cycle is less important to him than demand, which currently exceeds the space available on the market. His main point: letting turnover relevant to sales and therefore demand in Berlin have increased by 116% since 1998.

Business consultants were looking for office space and this is reflected in the statistics. However, consultants etc. in Berlin are not a quickly growing target group in the Berlin office property market at the moment. Based on his historical data and also with regard to the current level of demand, the consultancy sector can even be expected to decline (percentages: 2015: 7.1%, 2014: 11.0%, 2013: 13.5%, 2012: 9.3%)

He believes that the providers of serviced offices with flexible open office and/or co-working concepts in the digital sector would definitively shape the working world of tomorrow in such a way that in around five years, at least 30% of jobs would involve a co-working concept. Tenants such as WeWork and Mindspace would normally always require at least 3,000 sqm of space. There is currently an immensely high level of demand including from international players in this sector that are not represented in Berlin.

### **Co-working spaces will soon have a 30% share**

*Government expected to require 125,000 sqm of space. Consultants have had little effect on the market in recent times*

His plea to politicians and administrators: 'Berlin Partner is on an excellent course, yet too little marketing is being done in other cities and countries to attract new businesses to Berlin. In general, faster approval processes are necessary for relocations and expansions. Building permits for projects are processed too slowly and the processing period makes them unworthy of a capital city.'

### Martin Rodeck

*Project developer / developer  
OVG Real Estate*

Martin Rodeck and his company OVG build numerous office projects in Berlin including for Zalando at the East Side Gallery. He therefore operates at an intersection between a large overall development in Berlin and the implementation of suitable investment projects.

Martin Rodeck refers to a fact that is at the forefront of his mind as a developer of technologically innovative office properties: in light of the increasing rents in previous quarters, higher-quality office buildings would only be feasible again in Berlin in popular locations. He cites rental agreements with companies such as Booking.com or Delivery Hero and sees potential for new 'smart' projects, perhaps at the main station in Berlin.

He is also seeing growing demand from digital companies for rents of under EUR 20/sqm in projects such as the one at Postbahnhof. The relatively cost-effective average rent of EUR 15/sqm is also a bonus for many local companies. These new developments resulting from increasing demand and rents should not be nipped in the bud.

Unlike the development of digital companies, Martin Rodeck does not consider the continued relocation of ministries and authorities from Bonn to Berlin as relevant to his company. For larger organisations, ownership models would still take priority over rental models. The same would apply to the main branches of traditional sectors which the project developer also believes will be barely relevant in the coming years in Berlin, in spite of initial interest from Istanbul. Instead, it will be the roughly 15,000 employees of Zalando who will set the tone in Berlin's office property market with further innovations.

He calls on politicians and officials to practice 'smart management' in the future and be prudent with state-owned land, not only in the field of domestic construction.

### **Interaction like in a hotel lobby**

*New ways of working are putting pressure on traditional methods and require innovative, flexible projects.*

**Eike Becker**  
Architect

***Innovative strength  
lies in the pooling  
of activities***

Eike Becker mainly works in the major German cities with his Berlin office. He has been monitoring the developments in Berlin from a societal and architectural perspective for years. He calls it 'superference, a higher notion of interference'. Similar to systemic coaching, he considers correlations on as many different levels as possible in an attempt to open closed systems like a successful draft.

With this approach he sees the development of Berlin's society as a creative story of ideas. Due to its completely different dimensions and starting conditions, he considers the recent comparison with London unfitting.

He is interested not only in the technological aspect of start-ups and digital companies, but primarily the changing forms of work and behaviour. The inclusion of individuals within diverse groups will always be reinterpreted. How we work, live, shop and spend our free time is being redefined across the globe. Companies would be wise to actively embrace and use these changes.

He expects politicians to more actively support new opportunities and continue to improve the living quality of the city. The developments of recent years must not fall victim to speculative investors who drive up land prices without generating value.

**Regula Lüscher**  
Senate Building Director  
Senate of Berlin

***The strength of the  
economy defines  
its density and size***  
*The costs and yields*

The Senate Building Director balances interests on a daily basis whilst taking responsibility for a good, sustainable cityscape. In recent months questions have begun to arise about the options for more jobs in Berlin – alongside the pressing questions about flats.

For Ms Lüscher, the question of quantity is the first to come to mind when it comes to the future of digital companies in Berlin. However, even more important to her is a profound awareness of a sustainable building structure – including the ground plans of the future. It is one thing to build a narrow skyscraper for the traditional top-down culture and another to invent a new type of building for working in networked structures and flat hierarchies.

Ms Lüscher's request to owners, investors and developers is one born of pragmatism: a mutually high understanding of operations is extremely important to her. Especially as costs, yields, market conditions and even political focal points are constantly changing. Plans in the growing city of Berlin must be

flexible and sometimes more clearly defined by what has definitively been ruled out rather than by LOIs. This type of work needs reliable, long-term partners.

### Summary

The current observations of **experts** who are familiar with the development of Berlin's economy and office property market **largely reflect even higher dynamism** than suggested by the statistical data in sections 2–6. Start-ups and digital companies are the predominant drivers of this dynamism.

Some factors such as the ongoing relocation of government ministries from Bonn to Berlin, corporate relocations following Brexit and the political situation in Turkey are worthy of mention, yet they are not as influential as the **economic forces** in Berlin or **Germany** themselves. None of the experts surveyed sees the developments as a risk, be it one of boiling over or lacking sustainability.

Supplementary opinions on 'new worlds of work' (co-working) that supplement the quantity structure of the forecast are relevant to this study.

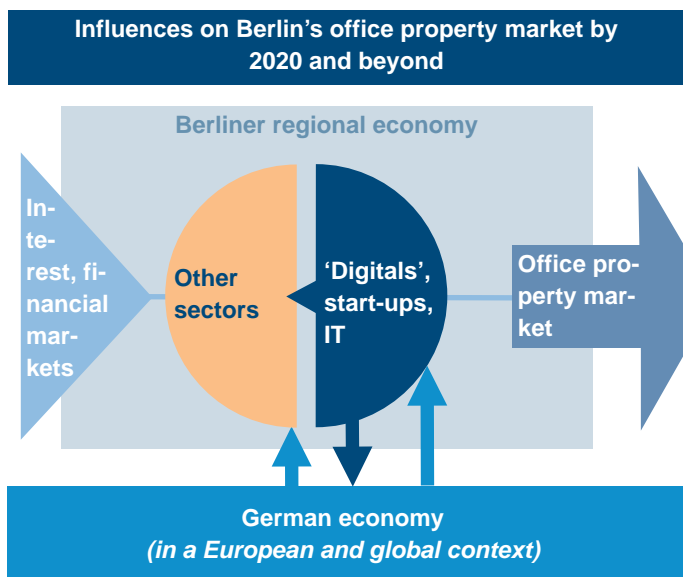


## 9 SUMMARY AND OUTLOOK

In the previous sections, the data obtained from official statistics and Berlin real estate research as well as the expert opinions of local players and observers have shown how relevant digital companies and the heterogeneous start-up scene have become to Berlin's economy and office property market – in just five to seven years. Although the data reflect a certain degree of continuity and balance up to 2015 or mid 2016, the players consider the prospects almost electrifying. Two extremes such as these make a reliable, sound forecast difficult. A lot actually depends on the new digital business models.

Regarding the potential of digital companies, we must consider the changes in the global (and the German) economy in general. The digital revolution is currently overshadowing biotechnology, life sciences and the energy sector as the great promise of economic competitiveness in the future.

Therefore, the synergies generated between (Berlin's) digital business and the German national economy will be more significant to Berlin's office property market and regional economy than previously expected over the next few years. The same



applies to other German cities with which Berlin is competing for talent, businesses and jobs. However, even now three aspects of the competition in Berlin are the bases of the following forecasts:

- a) Berlin is leading Germany and Europe in start-up creation and finance and is already producing well-known digital companies with brands such as Zalando, Immobilien Scout and SoundCloud.
- b) Names such as Bosch, Schindler and Volkswagen have strengthened the ties between classic German companies and the digital scene in Berlin and are stabilising regional IT dynamics with contracts and projects.
- c) Tourism has increased sharply in Berlin alongside digitisation, lending the city a global image with a global attraction, which benefits the Internet-based companies with a global outlook based there.

The forecast concerning the office users of tomorrow predicts that an additional 62,000 office employees will seek additional office space in Berlin between 2015 and 2020. In 2020 Berlin will then have 775,000 office employees who will account for 40% of all earners in the city. This increase of 8.7% in five years reflects a conservative level of dynamism that was slightly higher between 2010 and 2015. This approach is based primarily on an assumption that the growth of the German economy will be slow. These statistics show that Berlin has the highest level of dynamism out of the seven largest cities in Germany.

Just 14,000 new office employees are expected in the TMT segment, with the majority of employees in digital companies in that segment.

Berlin's office users of tomorrow 2020 forecast and outlook			
Outlook for Berlin in 2020			Outlook for 2020 +
2015		→	2020
Number of office employees		Approx. 713,000	Approx. 775,000 = Increase 62,000 (+8.7 %)
Proportion of office employees		Approx. 39 %	Approx. 40 %
Sectors	Technology, media, telecommunications (TMT)	Other corporate services	Public administration (national and regional)
	<ul style="list-style-type: none"> <li>Very strong growth</li> <li>Regional growth drivers</li> <li>Synergy with German economy</li> </ul>	<ul style="list-style-type: none"> <li>Very strong growth</li> <li>Linked with TMT</li> <li>Dependent on the economy</li> </ul>	<ul style="list-style-type: none"> <li>Relatively low growth</li> <li>Large volume</li> <li>Ownership decreases market relevance</li> </ul>
Locations	Berlin-Mitte and neighbouring urban areas	Central locations, BER corridor	Government district and various city locations
	<ul style="list-style-type: none"> <li>New office plans</li> <li>Community driven</li> </ul>	<ul style="list-style-type: none"> <li>Dense city locations</li> <li>Classic tenant type</li> </ul>	<ul style="list-style-type: none"> <li>Highly independent</li> <li>Independent of econ.</li> </ul>

**Strong growth if**

- Berlin can keep its current economic lead in the IT landscape
- the conditions are maintained (e.g. 5G network, public Wi-Fi, BER)

**Slowed growth if**

- the German and global economies recede (financial market, interest)
- politicians are unable to support the growth of the city



There are also more than 11,000 office workers in the other corporate services sector who are linked just as closely with the sector occupied by prosperous Internet companies (advertising, research, auditing, consulting etc.). Generally speaking, this group is not clearly separate from the consultants (business consultants) group which will also grow by around 10,000 office workers in Berlin. However, in recent years consultants have appeared less dominant than the first two groups in the office property market. We can already see the remarkable effects of new ways of working in projects, small groups and alternating teams that have overshadowed the major consulting firms of previous decades on the office property market.

From a strategic perspective, the following points are key in terms of urban development as well as for private investors and developers:

1. The increase in the number of office workers in Berlin has been similar, if not superior, to the increase in London for some years. The growth rate in Berlin from 2005 to 2015 was 24% compared to 23% in central London. This relatively equal standing is not expected to change in the coming years.
2. In particular, the digital companies and start-ups that have been driving recent growth covet locations and areas in Berlin-Mitte, a location with around 2 million sqm of office space Suburban districts in Prenzlauer Berg (Peripherie Nord) and Kreuzberg are far behind.
3. Since 2011 letting turnover in Berlin's office property market has been dominated by digital companies rather than other tenant groups such as the government and public authorities, corporates, headquarters or auditors and law firms. This structure

is ongoing and is becoming more dynamic. By 2020, the two major fields of administration and technology/media will each account for 15% of office workers. Combined with other corporate services (13%), these three groups represent almost 50% of all office workers in Berlin.

In the future, i.e. looking beyond 2020, how Berlin will still be able to rely on developments such as those from New York, Brooklyn, Austin or Boston without ever achieving the global significance of the Bay Area will be of great significance. Providers of office space who deliberately deliver open office plans, a platform for socialising and networking and a both global and digital sense of innovation will shape the office property market in Berlin. Other providers such as Coworks, Industrious and Mindspace are already hot on the heels of the pioneer WeWork.

However, the political situation in Berlin on both a national and state level is no less important. Whereas on the national level, a European and globally oriented Germany can provide room and the vision in Berlin for a secure global economy, the state and city of Berlin must be able to realise and direct the new growth. Ways of tying currently emerging forces to the city in the long term might include moderate increases in city density (multi-storey buildings), a rapidly implemented 5G network, public Wi-Fi or a major international airport. The competition between cities is unrelenting.



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