## Market Focus 2015

### DIGITAL ECONOMY AND TAKE-UP

#### DIGITAL ECONOMY: ENGINE OF THE FUTURE

The digital economy, which comprises information and communications technologies (ICT) and Internet-related enterprises, will have a massive and lasting impact on all aspects of business and society. Although Germany ranks only sixth out of ten countries in an index published in the current edition of the German Economics Ministry’s Digital Economy Monitoring Report (“Monitoring-Report Wirtschaft Digital 2015”), there can be no doubt that the digital economy will be a driving force for the future. An indication of the significance it already enjoys is the fact that the number of people employed in the ICT sector in 2014 was 1.06 million. If the Internet-related payroll is added to that, it is evident that digital is now the third-strongest branch of the economy, after retailing and knowledge-intensive services and well ahead of mechanical engineering, automobile construction and the chemical industry. This development is already substantially influencing take-up in the German office premises markets, as outlined in the survey below, which also includes a review of emerging trends.

#### BERLIN NOW THE DIGITAL HOTSPOT

A look at the take-up generated by the digital economy – i.e. hardware and software, IT services and Internet business such as online trading and booking portals – reveals that in the past three years, Germany’s Big Six office centres have undergone a very dynamic development. In 2013, the relevant take-up volume came to 392,000 m², while in 2015, it already totalled 625,000 m² – an increase of nearly 60%. But the scale of growth varied very considerably between the individual cities. The all-out shooting star is Berlin. Whereas in 2013, digital accounted for around 21% of office space take-up in the German capital, the proportion in 2015 was already more than 39%. In absolute figures, the volume tripled, from 81,500 m² to 244,000 m². At the same time, Berlin has left Munich, in the past the most important location, well behind it. While the Bavarian capital is above all the centre for the major software giants and the traditional ICT sector, Berlin has made itself the location of choice for start-ups and the Internet economy. All the same, Munich easily remains the country’s No. 2, with digital-related take-up of over 164,000 m² in 2015. In the other cities, in comparison, this future-oriented business cluster plays a far more limited role, with relevant take-up volumes exceeding 50,000 m² only in years featuring major new leases. In absolute terms, Cologne in particular has a lot of catching up to do.
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Digital share of take-up 2010-2015

Digital economy accounts for one m² in every six
In the six years since 2010, an average of one square metre in every six in the Big Six office centres was taken up by firms involved in the digital economy. But the different locations benefited to varying degrees from the overall growth in take-up. Here, too, the field is led by Berlin, where the digital economy has contributed almost one quarter (24%) to aggregate turnover. Especially notable is the dynamic development seen in the past few years, peaking in 2015 with a record take-up share of around 30%. Relatively high proportions are also registered by Munich, with 20%, and Düsseldorf, with 18%. The other cities produced shares well below the average. In Frankfurt, the digital economy has been responsible for 12% of all take-up in the past six years, while in Hamburg and Cologne the relevant figure was only 11% in each case. And particularly in these cities, there have been sizeable fluctuations between different years. Very good results, such as the 18% achieved in Cologne in 2015, contrast with years producing shares of less than 10%. In Hamburg, for instance, the proportion registered in 2015 was just under 7%. This kind of volatility is often due to the disproportionately strong effect of individual large deals.

MARKED INFLUENCE ON OVERALL SPACE TAKE-UP

Another indication of the significance which the digital economy now has is the way overall take-up of office premises has developed. In the very good year of 2015, aggregate space turnover in the Big Six centres rose by 21% compared with 2014, with the biggest rises being registered by those cities where digital-related businesses generated high shares. The year-on-year growth ranking was headed by Düsseldorf with +39%, followed by Berlin with +34%, and Munich with +24%. Even Cologne, where the digital economy contributed 18% to the result in 2015, was able to increase its take-up by 17%. That sets all these cities off from Frankfurt (+7%) and Hamburg (+3%), where the comparatively low take-up proportions produced by digital enterprises evidently restricted the otherwise positive scale of demand.

DEVELOPMENTS SINCE 2010 VARY

The average year-on-year change in office space take-up was considerably lower in Hamburg and Frankfurt in the past five years than in the other cities. Viewed across all the locations, turnover expanded by around 4% p. a.; the figure for Hamburg was only about 2%, while in the banking centre of Frankfurt, there were actually declines of 3% p. a. This indicates that Frankfurt’s very reticent development in terms of take-up in the past few years is due not insubstantially to the fact that the contribution made by the digital sector is below the average for the country as a whole. This contrasts with Berlin, where take-up has risen by almost 12% p. a. Munich (+7%), and Düsseldorf and Cologne (each: just under 6%) occupy a mid-field position in this respect, with increases just above the average for all the cities taken together.
BERLIN WITH BIGGEST DIGITAL PAYROLL

In the inter-city ranking of the number of people employed in the digital economy, Berlin has moved into first place, with close to 59,000 in 2013 (more recent figures are not available) in front of Munich (just under 52,000). Not far behind, with 47,000, comes Hamburg. Although the overall size of each city helps to shape the digital payroll, there is no linear relationship. Underlining this is the fact that Frankfurt, Cologne and Düsseldorf – despite their different sizes – have very similar numbers of employees in this sector, with the totals ranging between 22,000 and 25,000.

CAPITAL CITY ALSO EXHIBITS GREATEST DYNAMISM

It is not just where the absolute scale of the digital payroll is concerned but also regarding the dynamic rate of increase in this respect that Germany’s capital city heads the field. Between 2008 and 2013, the number of people employed in the digital economy in Berlin grew by 44%. In second place came Cologne with +32%. Surprisingly, Munich actually registered a decline, with digital employment in 2013 around 8% lower than in 2008.

START-UPS ABOUND IN BERLIN

One further piece of evidence that Berlin has become the absolute darling of the digital economy is provided by the number of start-ups in this field. In 2013, these totalled 436. Munich registered fewer than half that figure, with 208, but all the same that was enough to give it second place nationwide. In Frankfurt (92) and Düsseldorf (67), the totals were only in the double-digit range.

SUMMARY

The analysis shows that with its new status, the digital economy now exerts a substantial influence on demand for office premises and thus on office space take-up. It is also apparent that the country’s major cities benefit from this to varying degrees. The clear-cut winner is Berlin, where the present development looks set not just to continue but also probably to gain in momentum. According to calculations by Investitionsbank Berlin (Berlin Investment Bank), there is a good chance that by 2030, around 270,000 new jobs can be created in the capital in this market segment. That would mean an average of 18,000 new employees a year. Allowing 15 m² per workplace, that alone would generate an annual take-up of about 270,000 m². Something which has also become evident is that other cities – even if they also have cluster advantages, like Frankfurt as European financial centre – will have to step up their efforts if they want to secure their place in this future-oriented branch of the economy. One thing that this implies is creating framework conditions for start-ups that are as perfect as possible.