



FRANKFURT

MARKET REPORT

OFFICE LEASING
AND INVESTMENT MARKET

2018/2019



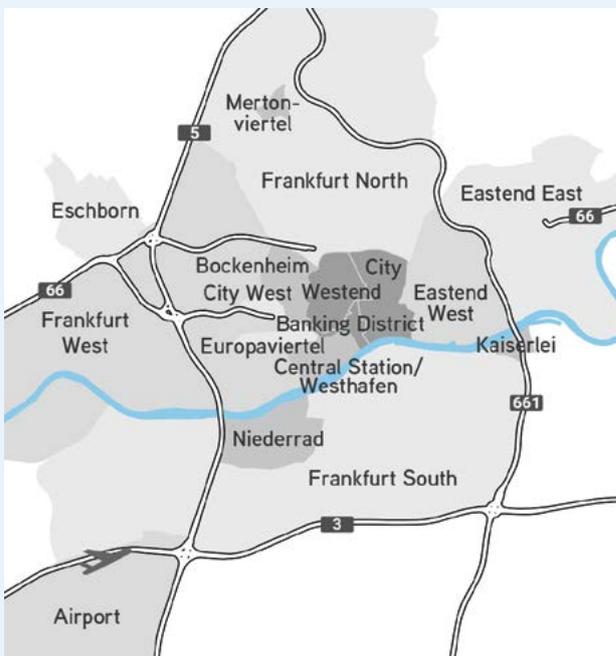


CITY FACTS FRANKFURT

Population in 1,000	747
Employees Paying Social Security Contributions in 1,000	580
Unemployment Rate in %	5.0
Per Capita Disposable Income in €	26,696

Fast Facts

Office Leasing Frankfurt	2018	Change year-on-year
Office Space Take-up	618,000 sqm	-13.0 %
Leasing Take-up	605,900 sqm	-9.2 %
Prime Rent	42.00 €/sqm	2.4 %
Average Rent	20.30 €/sqm	1.5 %
Vacancy Rate	6.8 %	-280 bp
Office Space Stock	11.46 million sqm	-1.0 %



Achieved Rents in €/sqm

Submarket	Prime Rent	Average Rent
Banking District	44.50	31.80
Westend	34.50	24.00
City	33.00	21.50
Central Station/Westhafen	25.00	19.00
Bockenheim	17.50	16.00
Europaviertel/Fair District	22.50	20.50
City West	20.00	16.50
Frankfurt South	19.50	15.50
Airport	26.50	20.00
Frankfurt West	13.50	12.00
Frankfurt North	14.00	10.00
Mertonviertel	13.20	12.00
Eastend West	18.00	15.00
Eastend East	12.00	9.10
Niederrad	16.00	13.50
Eschborn	14.50	11.10
Kaiserlei	12.50	11.50

OFFICE LEASING

Take-up

The Frankfurt office leasing market, including Eschborn and Offenbach-Kaiserlei, achieved an outstanding result in 2018 with take-up at roughly 618,000 sqm. While this result surpassed the 10-year average by 27%, it still fell just short of 2017's record outcome by 13%. As the result posted in 2018 reflects, demand for office space in the city remained high with take-up stable yoy across all space segments. A lower number of large-scale deals for over 10,000 sqm was the only factor preventing a new record result.

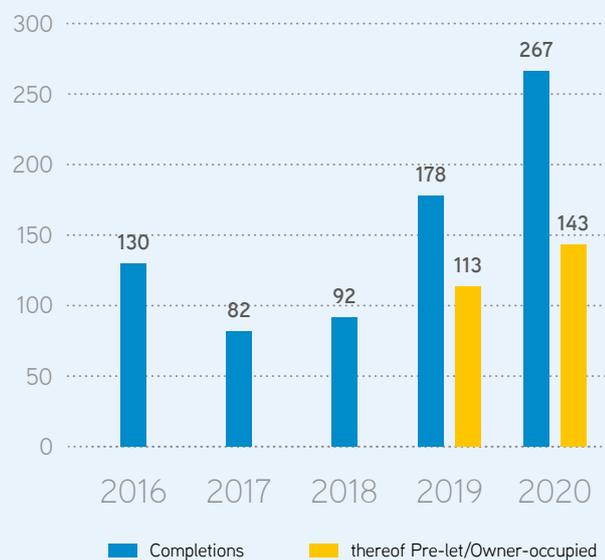
Banks and financial service providers were the most active, taking up around 119,000 sqm and generating a market share of almost 20%. These results highlight the significance of the financial sector for the Frankfurt office market. Worthy of note, however, is the fact that the overall industry mix was quite diverse. ICT companies and consulting firms also claimed a two-digit market share as a result.

Market activity primarily revolved around the CBD in 2018, particularly the city's Banking District, which recorded 18% of total take-up. Frankfurt's office hubs, however, are currently being confronted with an increasing shortage of supply in central locations. The City West and Niederrad submarkets both benefited from current market conditions, coming in 2nd and 3rd place, respectively, among the city's most popular office locations. Large-scale tenants especially can still find available options in these submarkets. Examples include the lease signed by Commerzbank for around 36,000 sqm in City West and the Nintendo lease for roughly 16,000 sqm in Niederrad.

FIGURE 1: Office Space Take-up in 1,000 sqm



FIGURE 2: Completion Volume in 1,000 sqm



Rents

A number of leases signed at prime properties in Banking District boosted prime rent levels even further by more than 2% yoy to €42.00 per sqm at year-end. Average rents saw a similar trend, increasing slightly yoy to €20.30 per sqm.

Supply and Vacancy

Vacancy continued to drop in 2018, with the vacancy rate down 280 bps to 6.8% within the span of one year. The amount of space available for immediate tenancy also dropped 320,000 sqm from 2017 levels to a current 780,000 sqm. Vacancy fell throughout almost the entire market area in 2018. The situation in the Europaviertel/Fair District, Central Station/Westhafen and Bockenheim submarkets was particularly tense, however, with vacancy rates at below 3.0%.

Key Developments

Property developments did little to ease the situation supply-side in 2018. Construction activity was again minimal with only 91,500 sqm completed. Completions, however, are expected to increase significantly in 2019 and, especially, in 2020. The high-rise developments currently under construction and scheduled primarily for completion in 2019 are key factors behind this pick-up. The shortage of space is also inspiring an increasing number of office developments, also in city district locations. Only around 23% of the 267,000 sqm scheduled for completion in 2020 will be located in the CBD.

Summary and Outlook

Demand for office space remained strong in 2018 while supply continued to shrink, a situation the likes of which Frankfurt has not seen for 15 years. We do not expect to see a change in market conditions in 2019, which will put property developments in the line of sight, particularly for large-scale occupiers looking to secure suitable space.

FIGURE 3: Vacancy Rate in % and Vacancy in 1,000 sqm

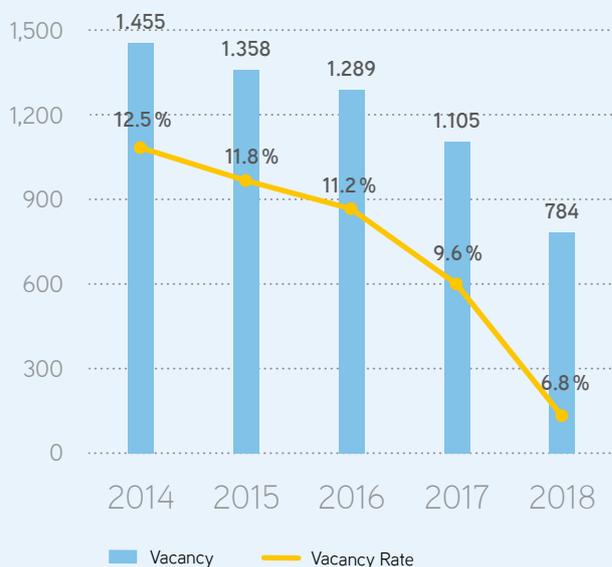


FIGURE 4: Prime and Average Rents in €/sqm



INVESTMENT

Transaction Volume

Investors poured roughly €9.7bn into the Frankfurt commercial property market, including Eschborn and Offenbach-Kaiserlei, in 2018, reflecting a yoy increase of 40%. This growth trend has been ongoing for 9 years in a row now with Frankfurt earning the top position among Germany's Big 7 for the first time.

High-volume deals contributed significantly to this record result. A total of 15 deals for over €200m each were posted in the past 12 months alone, claiming more than half of total transaction volume

combined. Although fewer deals were signed than in 2017, more of the transactions posted brought in higher volumes, including a number of high-rise deals. A total of 10 office towers changed hands in Frankfurt's Banking District alone. The largest deal of the year was Tishman Speyer's sale of the OMNITURM asset in Q3 to Commerz Real for just shy of €700m, followed closely by the TRIANON high-rise, which was sold for over €650m.

Fast Facts

Investment Frankfurt	2018	2017
Transaction Volume	9,664 million €	6,912 million €
Portfolio Transactions	9 %	12 %
Share by International Buyers	51 %	43 %
Share by International Sellers	43 %	20 %
Most Important Property Type	Office 90 %	Office 88 %
Prime Yield Office	3.30 %	3.30 %

FIGURE 5: Transaction Volume in million €

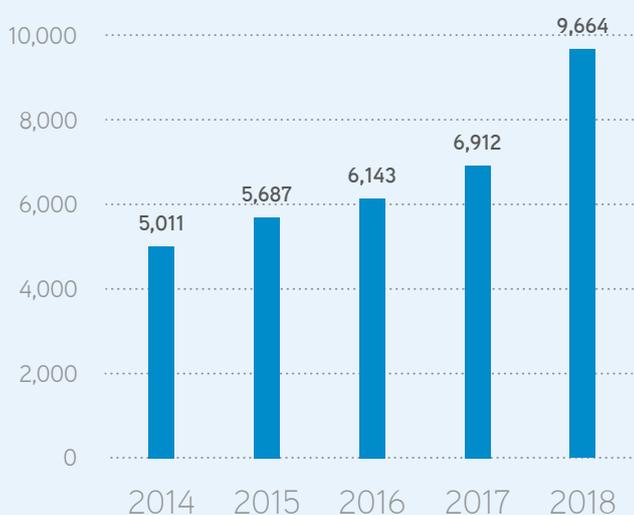
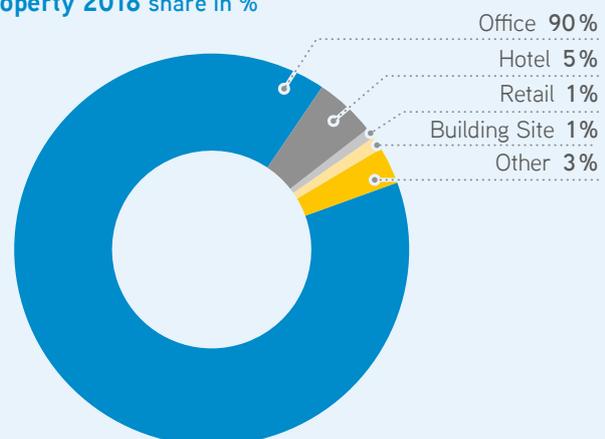


FIGURE 6: Transaction Volume by Type of Property 2018 share in %



Supply and Demand

With its high-volume assets, Frankfurt again proved itself a popular destination for foreign investors in 2018. More than half of total transaction volume was generated by foreign investors buy-side with a market share of 51%, or almost €5bn. The majority of this capital came from Asia, followed by the Middle East. At an average of over €100m, foreign investors invested almost twice as much per transaction than German investors. Assets changed hands sell-side for just under €4.2bn, with foreign investors posting a plus of just over €800m.

Office properties continued to be the most coveted asset class on the Frankfurt market in 2018. The office segment accounted for around 90% of total transaction volume, or just over €8.7bn. The only other asset class to post noteworthy results was hotels with around 5%. A number of hotel deals contributed to these results, also within the scope of high-rise deals and large-scale developments like Eurotheum and Junghof Plaza.

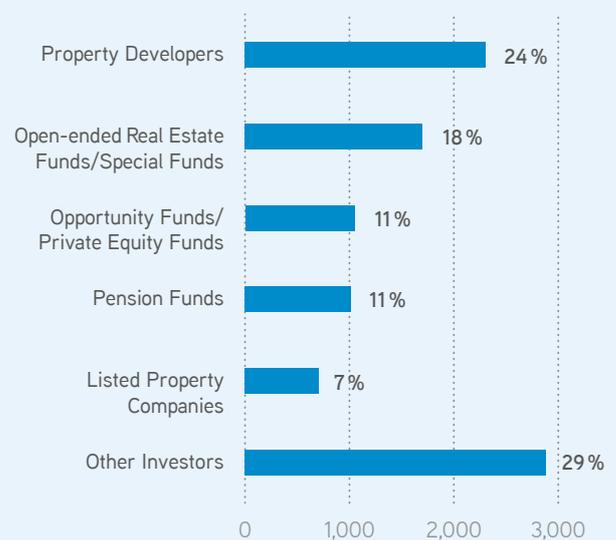
Open-ended real estate funds and special funds were the most active investor group on the Frankfurt investment market in 2018 with a transaction volume of over €3bn and a market share of over 30%. Asset/fund managers came in 2nd place with a transaction volume of roughly €1.8bn. Listed property companies trailed behind to claim 3rd place with a transaction volume of around €1bn.

A number of property developers took advantage of the market situation over the past 12 months, selling assets for around €2.3bn. Property developers managed to more than double their transaction volume yoy as a result, making them the most active group sell-side.

FIGURE 7: Transaction Volume by Buyer Groups
in million €, share in %



FIGURE 8: Transaction Volume by Seller Groups
in million €, share in %



Yields

Ongoing high demand continues to put pressure on yields across asset classes. Prime yields for office assets in top locations remained stable yoy at 3.30%. Yields for well-let office buildings in Frankfurt's secondary and tertiary locations continued to drop. Prime yields in some district locations were recorded at a low 3.90% at year-end, down 30 bps yoy.

Prices for logistics assets again experienced a slight yoy increase with prime yields at 4.50% by the end of 2018, a yoy decrease of 15 bps. Hotel assets saw prime yields fall 60 bps to 4.00%.

Summary and Outlook

The popularity of the Frankfurt investment market was very apparent in 2018 with a record result of almost €10bn. That put Frankfurt ahead of Munich and Berlin as Germany's most important investment market, in demand by German and foreign investors alike.

And there is no sign of a slowdown in 2019. Despite ongoing limited supply, we expect to see another high transaction volume spurred by high-volume deals in central locations, which also means additional high-rise deals. The next high-volume deals have already been announced and are scheduled to be finalized in the first half of 2019. Assets outside the CBD will also continue to pique investor interest due to excess demand on the office leasing market, which will cause yields in these locations to continue to drop.



2018 was an exceptional year in which the popularity of the Frankfurt property market was more apparent than ever.

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