Frankfurt Office, Q2 2017

Robust development on the office letting market

Take-up
108,900 sq m

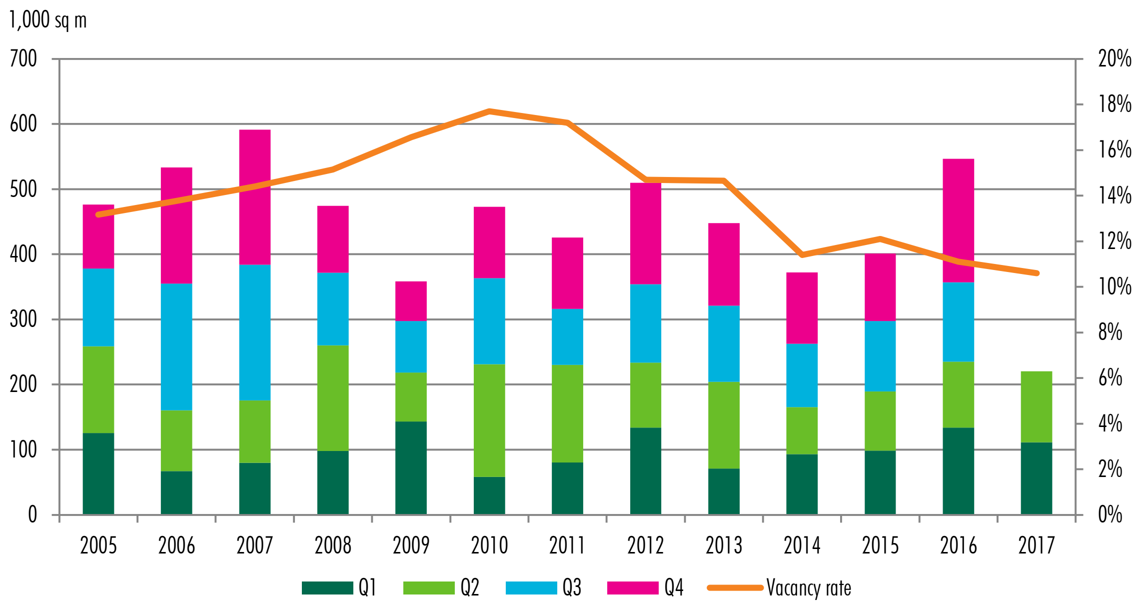
Prime rent
€39.50 /sq m

Vacancy rate
10.6%

Completions
62,700 sq m

Arrows indicate change from previous quarter

Figure 1: Office space take-up and vacancy rate



Source: CBRE Research, Q2 2017.

- Office space take-up of 220,400 sq m in the first half-year
- Vacancy falls by 110 bps compared to the previous year
- Below-average completion pipeline until the end of 2019
- Investment volume rises 73% year-on-year

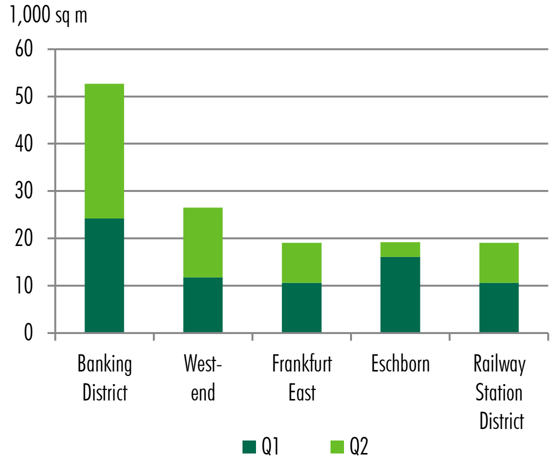
The space take-up of 108,900 sq m during the second quarter of the year in the office letting market in the German financial capital Frankfurt was another solid performance and a continuation of the positive trend to date. The cumulative first half-year take-up of 220,400 sq m is around 3% above the 10-year average. Frankfurt remains a strong competitor to accommodate the many jobs which are likely to be relocated as a result of the Brexit decision. In the wake of the first relocations announced during this year, the discussion is likely to gather momentum over the second half of the year.

OFFICE SPACE TAKE-UP

Take-up in the centrally located Banking District submarket was 52,700 sq m in the first two quarters alone, equating to almost one quarter of total take-up. This was followed by the Westend submarket with take-up of 26,500 sq m (12%) and Frankfurt East with 24,200 sq m. There was a total take-up of 95,900 sq m registered in the first half-year in Frankfurt's Central Business District (CBD) including the Banking District, Westend and Frankfurt City submarkets, equating to a share of almost 44% of total take-up across the entire Frankfurt office market. The largest deal in the first half-year was the letting of around 11,700 sq m to Clifford Chance in the Junghof Plaza in the Banking District. Around half of the registered take-up belongs to the <2,500 sq m size category and therefore the letting market is still characterized by a well-balanced mix of size categories.

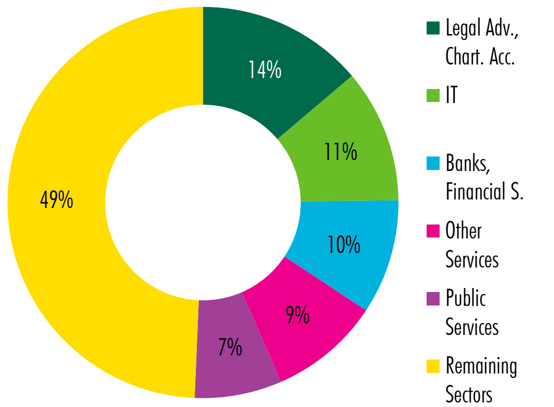
The most active tenant sector in the first two quarters were consultancies, which took up 30,400 sq m, or 14% of total take-up. They were followed by the IT sector with 24,300 sq m (11%), banks and financial services providers with 20,900 sq m (9%), and companies from the other services segments with 20,200 sq m (9%).

Figure 2: Office space take-up by submarkets (Top 5)



Source: CBRE Research, Q2 2017.

Figure 3: Office space take-up by sectors* (Top 5)



Source: CBRE Research, Q2 2017.

*in total 20 sectors

Figure 4: Office market key data	Q2 2016	Q2 2017	Y-o-Y
Total stock (all grades), million sq m	11.56	11.41	– 1.3%
Take-up, cumulated, 1,000 sq m	235,2	220.4	– 6.3%
Vacancy, million sq m	1.36	1.21	– 11.0%
Vacancy rate, %	11.7	10.6	– 1,1 %-pts.
Prime rent, €/sq m/month	39.50	39.50	±0.0%
Prime yield, %	4.20	3.50	– 0.7%-pts.
Capital value index (Q1 1986 = 100)	264	317	+ 20.0%

Source: CBRE Research, Q2 2017.

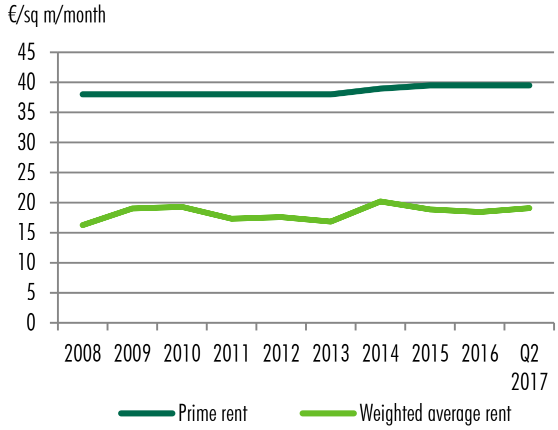
OFFICE MARKET RENTS

The weighted average rent was €19.10/sq m/month at the end of the second quarter, equating to a year-on-year rise of 5%. The high proportion of space take-up in the CBD submarkets has contributed most to the significant increase in weighted average rent. These submarkets comprise mainly properties with top grade fit-outs in central locations, which is reflected in the level of asking rents. Conversely, the prime rent remained stable at €39.50/sq m/month.

OFFICE SPACE PIPELINE

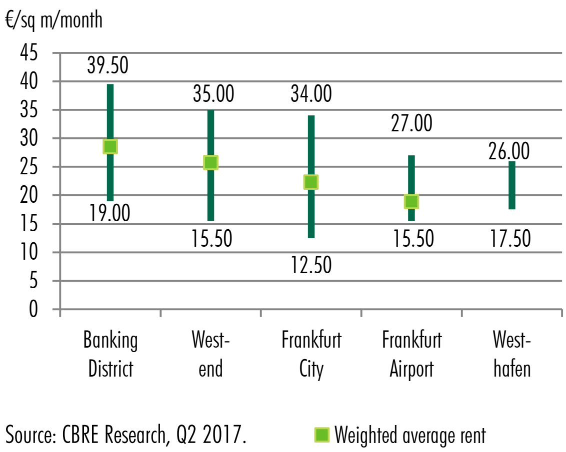
Due to the solid office letting market and the small volume of space in the completion pipeline, it is likely that there will be an increased shortfall in the supply of top grade centrally located office space in the future. There is currently 85,000 sq m in the pipeline in the whole of the Frankfurt market up to the end of 2017; of this, only 23,700 sq m is still available to let. Indeed, the supply of refurbished and newly constructed office space is unlikely to increase significantly over the coming year. Of the 93,800 sq m expected to be completed in 2018, just 35,100 sq m is still unlet. The supply is not expected to improve until 2019, when current information shows that 141,000 sq m office space is in the pipeline, but even this level of completions is still well below the 10-year average of 181,000 sq m. This situation will mean that the vacancy level in existing top specification properties will continue to fall, thereby limiting letting activity and reducing the probability of large-scale lettings. However, with the major development projects Four, One and Global Tower, which together comprise around 164,000 sq m of office space, due for completion in the period up to mid-2021, there are already projects in the pipeline for the period after 2019.

Figure 5: Prime rent and weighted average rent



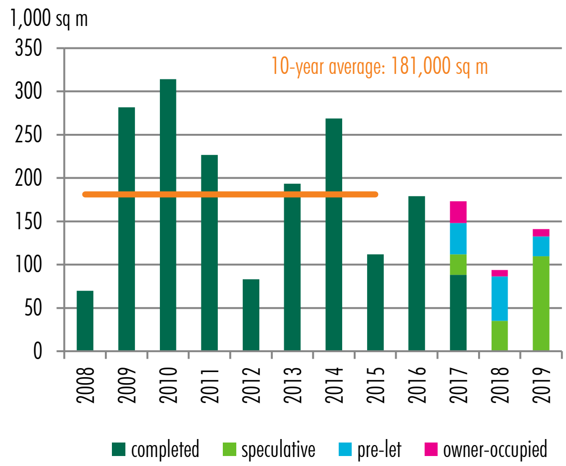
Source: CBRE Research, Q2 2017.

Figure 6: Rental bands by submarkets (Top 5)



Source: CBRE Research, Q2 2017.

Figure 7: Office space future supply

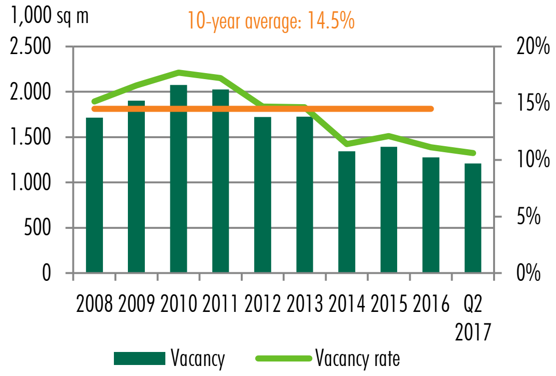


Source: CBRE Research, Q2 2017.

VACANCY

The high demand for offices combined with the demolition and change of use of obsolete office space has resulted in an 110 bps fall in vacancy rate compared to the first half of 2016, to its current level of 10.6%. Despite completions of 121,000 sq m, the total stock fell by 148,500 sq m over the same period because of demolitions and conversions to other uses. The vacancy rate in the CBD fell by 290 bps year-on-year to its current level of 8.9%.

Figure 8: Office space vacancy

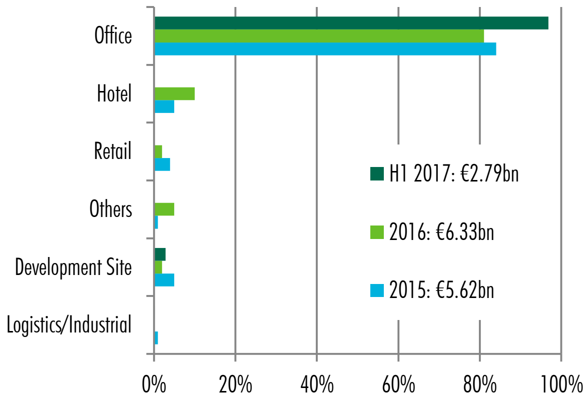


Source: CBRE Research, Q2 2017.

INVESTMENT MARKET

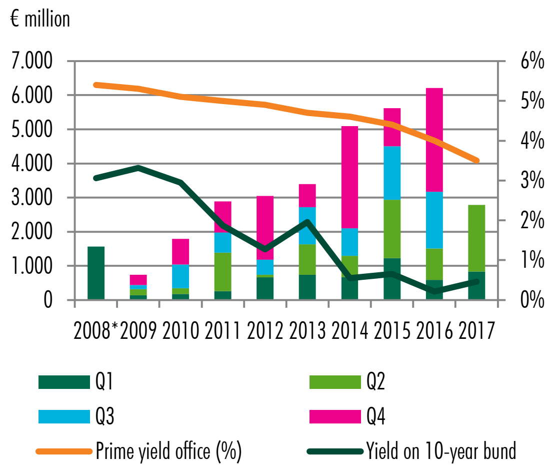
There was a remarkable performance in Frankfurt's commercial property investment market with a total transaction volume of €2.8bn in the first half of 2017, driven particularly by the €2.0bn of investments registered in the second quarter alone. This is a rise of 73% compared to the same period last year. The most active asset class was office properties which accounted for the majority of the total volume of €2.7bn, or 97% over the first half-year. Large-scale transactions in the >€100 million size category accounted for a large proportion of total volume, of around €1.2bn in the first half-year. Asset and fund managers were by far the most active purchaser group in the first six months, with an investment volume of €1.4bn (52%). They were followed at some distance by property companies/REITs with a volume of €360m (13%), open-ended property funds and special funds with €330m (12%) and project developers with €290m (10%). As a result of the strong investor activity over the second quarter, the prime yield has fallen again to its current level of 3.50%, down 30 bps compared to the previous quarter. Yields have also fallen by 20 bps in the city fringe and peripheral submarkets to their current levels of 4.20% and 5.50% respectively. As in the past, the continued high demand for office properties in Frankfurt is limited only by the scarcity of product.

Figure 9: Investment volume by property type



Source: CBRE Research, Q2 2017.

Figure 10: Investment volume, prime yield office, benchmark yield



Source: CBRE Research, Q2 2017. *prior to 2009, year-total

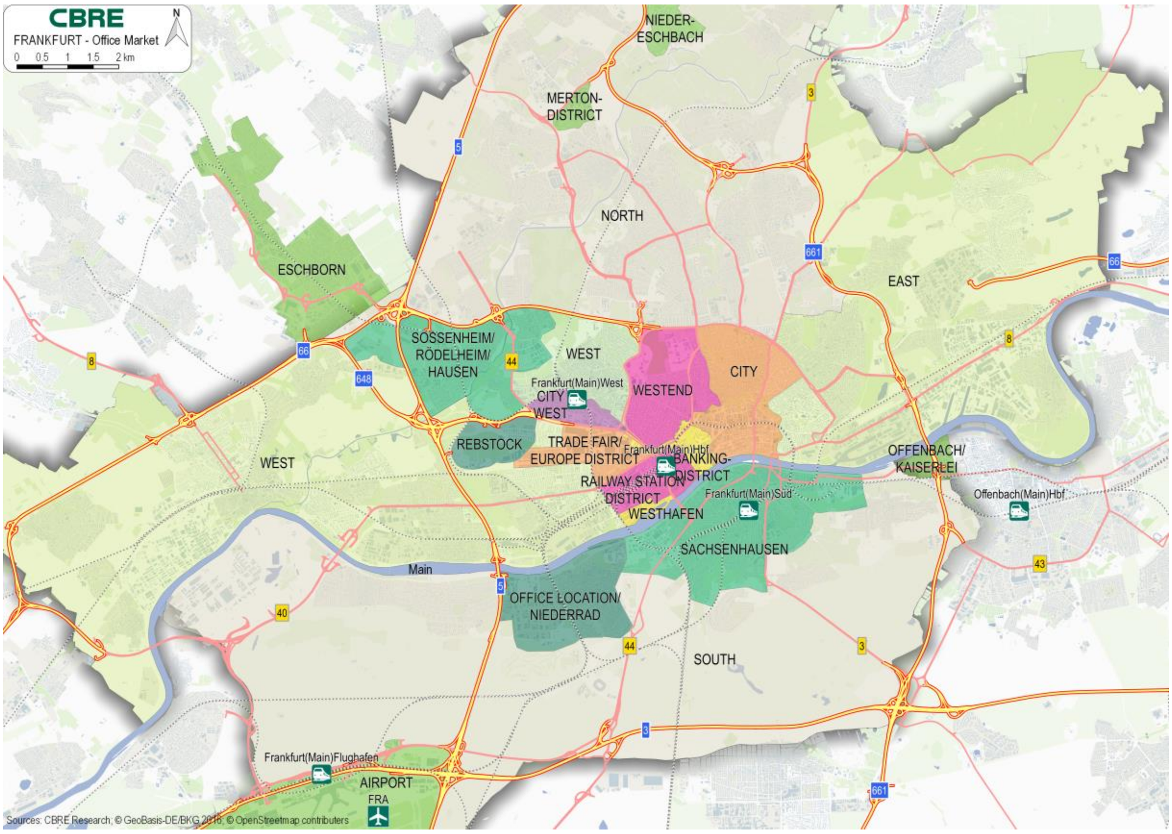
OUTLOOK

After the first banks announced the relocation of jobs to Frankfurt, they were followed by other companies from the banking and financial services sector. As space is limited in both the central submarkets and in project developments, demand for space in Frankfurt is likely to gather momentum in the second half of the year because of the job relocations already known in the market. It is therefore anticipated that the office letting market will continue its positive trend in the second half of the year. It is also expected that momentum in the investment market will continue. There are now several other large-volume properties on the market for sale, which means very good prospects for the second half of the year. As further financial services companies select Frankfurt as their future EU location, this will have a positive effect on the office letting market and the demand for office properties in the city. However, there is no improvement in sight for the limited availability of product, which will continue to be the limiting factor in the Frankfurt investment market.

Figure 11: Submarket key data

Submarket	Cumulated take-up (sq m)	Future supply Q3 2017-2019 (sq m)	Vacancy rate (%)	Rental band (€/sq m/month)	Weighted average rent (€/sq m/month)
Railway Station D.	19,100	6,800	6.1	10,00 – 18.50	15.91
Banking District	52,700	156,100	9,0	19.00 – 39.50	28.55
Office Loc./Niederrad	3,800	0	12.4	9.00 – 15.00	12.79
City West	12,000	0	17.1	11.00 – 20.00	16.46
Eschborn	19,200	10,000	15.9	7.50 – 18,50	10.73
Frankfurt City	16,700	11,200	6.2	12.50 – 34.00	22.30
Frankfurt Airport	11,400	11,700	9.1	15.50 – 27.00	18.88
Frankfurt North	200	30,300	2.5	8.00 – 14.00	n/a
Frankfurt East	24,200	38,100	10.1	7.50 – 16.50	13.86
Frankfurt South	0	0	2.0	9.00 – 15.00	n/a
Frankfurt West	4,900	7,100	7.0	7.00 – 14.50	11.33
Merton District	1,200	10,500	34.1	8.00 – 14.75	12.56
Trade Fair/ Europe D.	2,600	1,200	7.3	14.50 – 22.50	20.02
Niedereschbach	600	0	35.4	7.00 – 9.50	n/a
Offenbach Kaiserlei	10,500	0	13.8	8.00 – 13.00	11.27
Rebstock	0	0	2.6	10.50 – 17.00	n/a
Sachsenhausen	3,600	0	7.2	10.00 – 19.00	14.26
Sossenh./Rödelh./Hausen	4,500	0	10.7	8.00 – 15.50	10.33
Westend	26,500	22,200	11.4	15.50 – 35.00	25.73
Westhafen	6,700	14,600	11.9	17.00 – 26.00	n/a
TOTAL	220,400	319,800	10.6	7.00 – 39.50	19,10

Source: CBRE Research, Q2 2017.



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