



FRANKFURT

EXECUTIVE SUMMARY

- Frankfurt's office market saw above average demand in 2019 with office vacancy rates decreasing and rents rising across all submarkets. This trend is likely to continue in 2020.
- The mismatch between demand and supply persists in Frankfurt's investment market. The lack of product kept total investment volumes in check. Yields are forecast to remain at their current low level.
- Frankfurt's strong population growth will require new solutions in urban planning to keep Frankfurt attractive and affordable. The city of Frankfurt has started to plan new neighbourhoods and is pushing forward new mobility concepts.

Frankfurt is the EU's finance and banking centre. Regardless of Brexit, Frankfurt has prospered in past years recording positive growth across the board. In 2019 office take-up was above the long-term average, with rents rising. The retail market saw a number of new entries to the market and the logistics market was again driven by a lack of supply. Investor appetite was unbroken, but limited by a lack of available product.

Frankfurt is a city of change, trade and reinvention, which is occurring at an accelerated speed. The skyline of the EU's finance and banking centre speaks for itself: Frankfurt is the only German city which has always embraced skyscrapers and striking, even daring, architecture - long before other global cities planners recognized the importance of a river to quality of life. They successfully redeveloped the Main river banks, which was a game changer for Frankfurt's overall attractiveness as a place to live.

New and creative methods in urban planning are needed again for Frankfurt. The city is currently experiencing significant population growth. While the number of inhabitants rose by 7.8% over 5 years to 747,848 in 2018, it is projected that the population of Frankfurt will grow by another 11% over the next 20 years.

Rising urban density, rising rents, increasing and varied transport requirements: Frankfurt needs smart solutions in the short to medium term to maintain the city's high quality of life, keep it affordable and make it future proof in a globalised world.

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	→	→	→
Vacant Space	↓	→	↓
Construction Levels	→	→	→
Leasing Volume	→	↓	↓
Investment Volume (all sectors)	→		

Politicians and urban planners have shifted a gear in the recent past. They have developed the integrated urban development concept Frankfurt +2030. Some of the strategies defined in Frankfurt +2030 will be pushed forward in 2020. The most important ones will be:

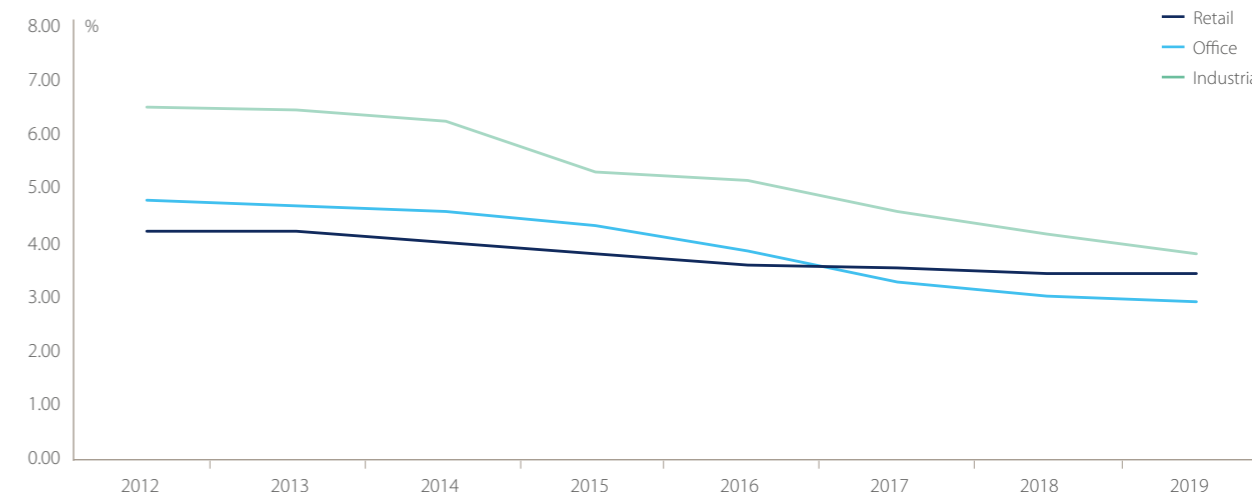
SOME OF THE KEY TOPICS TO LOOK OUT FOR IN 2020

Public Transport:

- U5: Extension of subway line U5 to both the north and south
- S6: Expansion of city train line S6 between Frankfurt Main West and Friedberg
- Regional tangent/bypass: Bad Homburg – Eschborn - Frankfurt Airport – Neu-Isenburg
- Connecting Frankfurt Airport Terminal 3 to the public transport network

Frankfurt's most important office tenant sectors, banking/finance and ITT, are heavily dependent on connectivity and the highest tech standards in buildings are key to their success. Smart buildings are their future.

FRANKFURT YIELDS



Source: Avison Young

Bike City Frankfurt:

- Bike paths: Extension and expansion of the existing network. Construction and redevelopment of 45km by 2023.
- Mainkai: until mid-year 2020, the street which runs north along the river Main in the CBD will be closed to cars and trucks. Closing Mainkai is a trial to assess the impact on the city's traffic flows of this road being closed. It is also the city's attempt to give some of its important places back to the public, encouraging people to walk, cycle and relax.

Residential Market:

- There had previously been plans for the development of a new city district in North West Frankfurt with some 30,000 residential units, the so called Josefstadt. The plan was dismissed due to Frankfurt's need for a fresh air corridor coming in from the North. In 2020 it will be a priority for the city to find appropriate development land to initiate and enable new large scale residential developments.

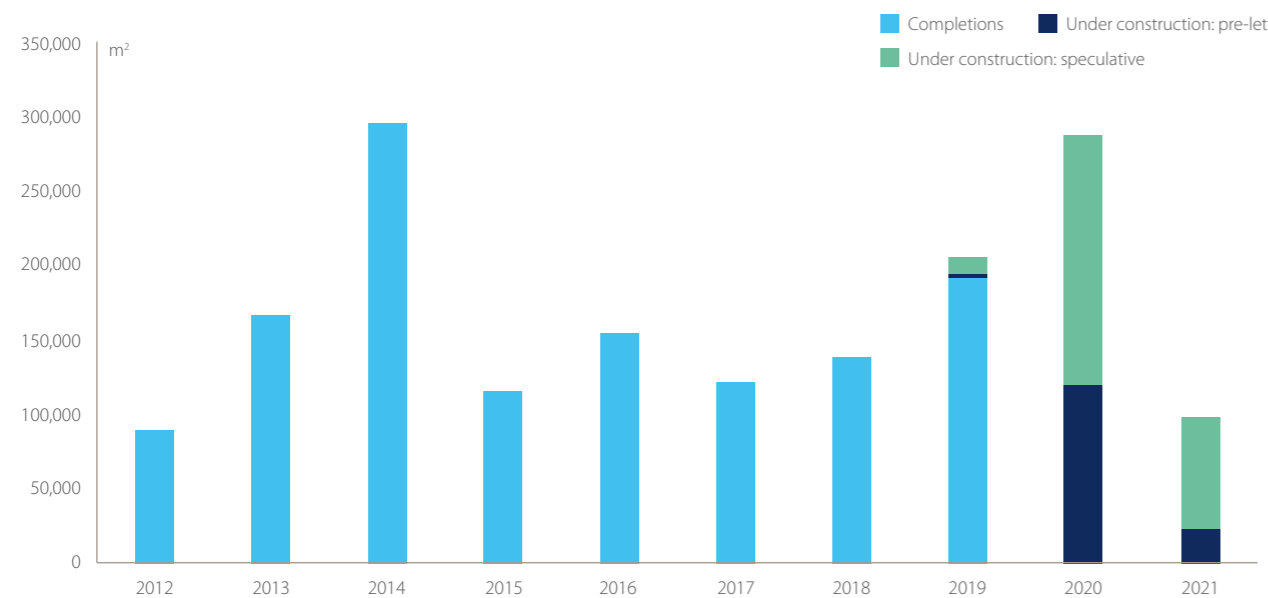
- Highrise buildings: Frankfurt is developing residential towers, the majority of which are within the luxury sector. Some striking towers like Henninger Turm have recently been completed. Driven by the shortage of affordable space, the City of Frankfurt is planning a policy which would require respective towers to comprise a minimum 30% share of subsidised housing. This can only be achieved by a change of the urban development/ zoning plan and therefore the discussion is likely to be controversial.

Office Space:

- High rise development plan: Frankfurt published its first high rise development plan to control and guide construction of high rise buildings in 1999. An update was published in 2008, and the next update is planned for 2021. In 2020 we are likely to see more discussions around Frankfurt's future as an office and commercial hub.

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FRANKFURT COMPLETIONS Q3 2019



Source: Avison Young

THE OFFICE LEASING MARKET

Frankfurt's office leasing market was strong during 2019, with above average take-up of c.500,000 sq.m recorded. Whilst the ten year average was exceeded, 2018's remarkable result could not be sustained as the number of large scale deals above 10,000 sq.m decreased noticeably. There has been continued strong demand from SMEs, as Frankfurt's tenant mix has diversified, along with continued demand from the financial and legal sectors.

Financial services continues to drive take-up, with DekaBank's 46,200 sq.m deal one of the largest of the year. Strong letting activity was also generated by consultants, ITT and co-working providers. Co-working providers contributed almost 10% of total take-up with Regus/Spaces being the most active acquirer. The rising importance of the shared economy and our changing working culture can be felt in Frankfurt.

Office vacancy continued on its downward trend. By the end of 2019, Frankfurt's vacancy rate was around 6.5%, which is its lowest level since the beginning of the millennium. In the CBD, modern, large scale vacant space is particularly scarce. Accordingly, a number of major deals were closed outside the CBD in 2019.

Rents rose moderately across all sectors, with prime rents growing 5% year-on-year to €44.00 per sq.m/month.

A number of exciting new projects are underway in Frankfurt, with some of them located right in the heart of the city. Overall, some 600,000 sq.m is under construction, with the bulk ready for completion in 2020. Approximately 50% of this space is already pre-let as tenants show great appetite for modern office space and face limited opportunities in existing stock given the overall low vacancy.

Frankfurt has always been the German office market with the most striking new office projects. Moreover, the city's leading banking/finance presence is heavily dependent on sophisticated tech solutions in assets. Top tech-standard in buildings is thus key to success in Frankfurt. It comes as no surprise that connectivity rating agency WiredScore rated 13 buildings in Frankfurt by the end of 2019, with 1 more currently in the rating process. We expect to see an increase in certified buildings in 2020 with pressure coming from Frankfurt's occupiers who are in turn forced to compete in the war for talent in an ever changing working world. Flexible room concepts and top-quality office space will be fundamental to future success.

For 2020 we expect demand to remain solid. The vacancy rate is likely to decrease further, mostly within the CBD. As a result there remains potential for a further rise in rents.

The urban future is mixed-use. Frankfurt's developers and urban planners know this. Some exciting new mixed-use projects are underway in the CBD.

COMMERCIAL INVESTMENT MARKET

Frankfurt is also in demand among investors. The focus is on office real estate, most of all on skyscrapers in the banking district. However, as such product is limited, investors are willing to invest in the broader sphere or in mixed-use buildings. Examples include the purchase of The Spin (hotel and office use) and 99 West (office), with both skyscrapers changing owner before completion. Overall, the office sector accounted for around 80% of total volumes in 2019, a total of over €7 billion for the year.

Although the 2019 result is significantly below the previous year's result of just under €10 billion, it is at a similar level to other recent years and volumes were limited, once, again, by a lack of product.

Under these conditions, yields remain under pressure. In the last quarter office prime yields again gave in and were at 2.90% at year-end 2019. The market also remains tight in the logistics and retail warehouse sectors.