Feeling Frankfurt

Between Brexit and post-crisis recovery, Frankfurt's office sector is booming, with particular interest coming from the world's financial institutions, according to Andreas Krone and Lenny Lemler of NAI apollo

There is clear evidence that Germany's financial capital, Frankfurt am Main, is growing its reputation as Europe's banking centre, adding banking service units from at least a dozen financial services firms or units.

Japan's Nomura Holdings and Sumitomo Mitsui Financial Group, plus a unit of the US's Citigroup, are taking the lead in relocating portions of their enterprises to this German city. Without a doubt, some of this activity is related to Brexit.

According to NAI apollo, NAI Global's affiliate in Germany, Nomura plans to move more jobs from London to Frankfurt because of the UK's upcoming exit from the European Union. To date, Nomura has relocated more than 100 employees to Germany and Austria. In London, Nomura currently has approximately 3,000 employees. Also, the smaller Japanese bank Daiwa Securities is considering relocating employees from the Thames to the Main. Further, another Japanese bank, K.K. Mizuho Financial Group, is planning to open a branch in Frankfurt.

Even without the surge in bank-related activity, Frankfurt's economy has consistently improved since rebounding from the global recession, and demand for all types of real estate space, including residential units, is being driven by population growth. Since 2009, Frankfurt's population has grown from just under 650,000 to about 730,000 as of the end of 2016. Unemployment stood at 5.8 percent as of May 2017. All of this is having a positive impact on Frankfurt's office market.

Take-up activity in Frankfurt during the first half of 2017 was 12.6 percent greater than in the first six months of last year, with approximately 2.67 million square feet of office space leasing through June of this year. That was also up on the average for the last 10 years by 15.7 percent, according to NAI apollo.

Bank	Property	Actual space	Vacancy in the property	Possible relocation of employees
Goldman Sachs	Messeturm	5,800 sqm	19,700 sqm	Max. 1,000
JP Morgan	Taunusturm	8.700 sqm	6,600 sqm	Max. 2,000
UBS	Opernturm	27,000 sqm	3,500 sqm	Max. 1,500
Citi	Die Welle	2,900 sqm	17,100 sqm	100
Morgan Stanley	Junghofstraße 12-15	5,150 sqm	0 sqm	1,000
Lloyds Bank	Nextower	380 sqm	7,100 sqm	> 100
Standard Chartered	Franklinstraße 46-48	2,150 sqm	3,400 sqm	20
Deutsche Bank	Several locations	155,000 sqm	3,400 sqm	Max. 4,000
Daiwa	New location			< 100
EBA	New location			160
Nomura	Gräfstraße 190/ Rathenauplatz 1			< 100
Woori Bank	New location			

We are in the middle of Europe and have excellent transportation infrastructure—airport, trains, and major roadways. Everyone speaks reasonably good or very good English. Rental and purchase prices for real estate are moderate—certainly compared to other capital cities, and Frankfurt is the financial capital of one of the biggest and most important economies in the world.

There is growing belief in further positive development of the letting turnover and prime rents. Hence, investments, especially in the value-add and opportunity sectors, are increasing as investors are willing to take more risks.

Andreas Krone
CEO of NAI apollo

The majority of the absorption has been by mid-size space occupiers. During the first half of 2017, NAI apollo reports that the bulk of leases to have been between approximately 53,000 square feet and 108,000 square feet. Contracts in this size range more than doubled, compared to the first half of 2016.

The strongest submarkets were Bankenlage, the central business district (CBD), where 35 deals were signed, totalling 513,252 square feet; the Westend, with 56 deals totalling 334,636 square feet; and Bahnhofsviertel, the train station quarter, where 35 lease transactions were completed in the first half of 2017, for a total of 231,340 square feet of office space.

Frankfurt's financial district, Bankenviertel, is not an official city district and is comprised of fewer than 10 streets in the western part of Innenstadt, the southern part of the Westend and the eastern part of Bahnhofsviertel.

Not surprisingly, banks, financial services and insurance companies retained the number-one spot in ranking industry types and office leasing. This group accounted for 17.4 percent of all office leases signed off in the first half this year, followed by consulting, marketing and research, with 14.3 percent, and communications and IT, with 12.4 percent of total lease absorption.

Also, three of the top five leases were completed by financial institutions. Deutsche Bahn AG took 77,472 square feet at Mainzer Landstrabe 185 in Bahnhofsviertel; Deutsche Bundesbank leased 75,320 square feet at Trianon, Mainzer Landstrabe 16-24 in Bankenlage; and the European Central Bank leased a little over 72,000 square feet at the Japan Center, Taunustor, also in Bankenlage.

The CBD, which includes Bahnofsviertel and Westend submarkets, remained the most popular location for office users, and increased its market share significantly from 51.3 percent in the first half of 2016 to 60.9 percent.

Frankfurt's overall office vacancy rate is at 10 percent. Rental rates average €39 per square metre for prime space, yet €19.50 for the overall office market. Overall, rents in Frankfurt have been remarkably stable over the past 10 years. Rents averaged €17 per square metre in 2006, reached a high of €21 per square metre in 2008, and have stayed around the €20 per square metre mark since 2009.

Frankfurt's total office inventory is about 122 million square feet, and NAI apollo is forecasting that the city will have nearly 6 million square feet of gross leasing absorption this year.

Germany's biggest cities all enjoyed a strong first half of the year for office leasing. Occupiers leased over 4.42 million square feet in Munich, 4.25 million square feet in Berlin, 3.2 million square feet in Hamburg and approximately 2.37 million square feet in Dusseldorf.

And for financial firms currently located in London, or New York and Dubai, for that matter, Frankfurt can present some advantages, in its transport infrastructure, English-speaking residents, and moderate rental and purchase prices in real estate.

Increased demand for office space and higher occupancy rates is also driving investment activity in Frankfurt.

Accordingly, property values and sales volumes are increasing, albeit more slowly than they have in recent years, which were substantial.

During the first quarter this year, €2.08 billion in office properties sold, while €1.37 billion of offices were traded in Q2 2017. Investment volume is expected to exceed €5 billion for the year. The unabated demand for Frankfurt office real estate is driving down investment yield, with the top yield currently around 3.5 percent, the same as the US capitalisation rate. **REIT**

Investors and speculators are taking closer looks at some of our submarkets for opportunity. Yields, even though they are lower than previous years, are traditionally higher here, due to the higher risks and lower re-letting probability. However, investors are now trying to acquire properties and hoping to lease those quickly, thereby adding value to their investment.

Lenny Lemler
Partner and co-head of investment at NAI apollo