

MARKET REPORT

Frankfurt
Mid-year Report 2016



Office Leasing and Investment

Accelerating success.



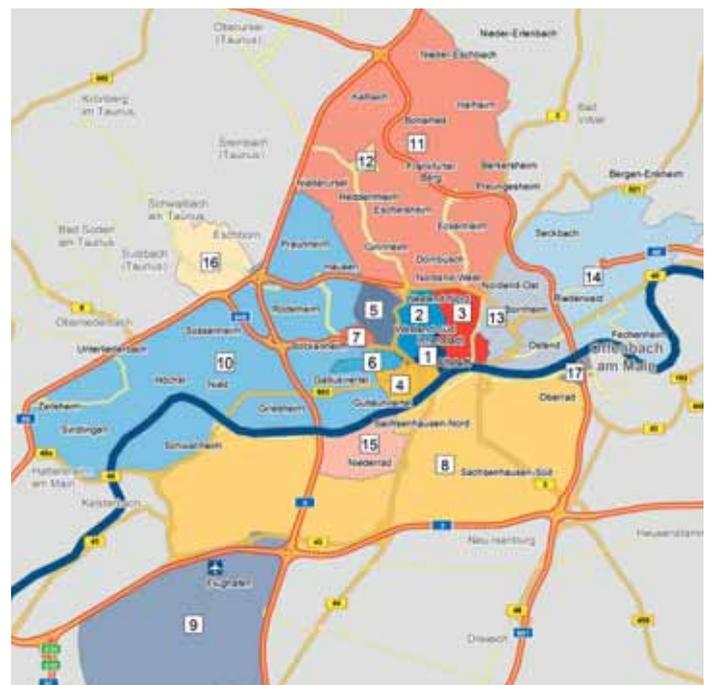
Office Leasing

Ongoing positive trend on Frankfurt office leasing market in Q2

Take-up

Roughly 211,000 sqm of space was taken up on Frankfurt's office leasing market (including Eschborn and Offenbach Kaiserlei) in H1 2016, up around 20% yoy.

This favorable trend from Q1 has continued into Q2. Although only one lease in the space segment of more than 5,000 sqm was signed in Q2, take-up was considerably higher than in H1 2015. This positive trend is largely due to

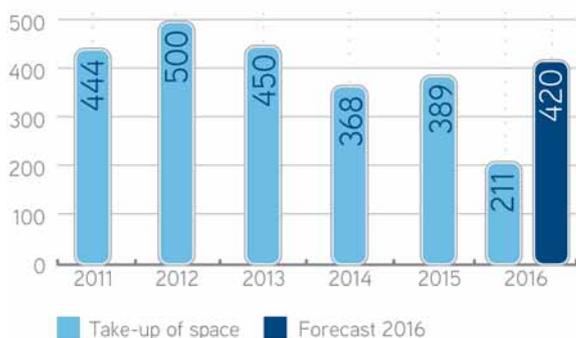


Frankfurt	
KEY DATA	
Inhabitants	724,000
Unemployment Rate	6.1 %
Socially-insured employees	537,000
Purchasing power index	114.2
Rate of municipal business tax	460 %
Disposable income per capita	25,046 €

Source: Statistisches Bundesamt, Statistische Landesämter, Bundesagentur für Arbeit, infas geodaten

Fast Facts	
OFFICE LEASING	
Take-up of space	211,100 sqm
Leasing take-up (without owner-occupiers)	210,700 sqm
Prime rent	38.50 €/sqm
Average rent	19.00 €/sqm
Office stock	11.6 Mio. sqm
Vacancy rate	11.8 %

Take-up of space in 1,000 sqm



the considerable amount of take-up in the space segment of between 1,000 and 5,000 sqm, accounting for 19 leases signed for more than 39,000 sqm in Q2 alone. The small space segment of less than 1,000 sqm also continues to post high take-up results.

Demand

With take-up of just under 55,000 sqm and a market share of more than 25%, banks and financial service providers once again ranked first among the most important industries in Frankfurt, followed by consulting firms, which accounted for the largest number of leases signed (58 leases). Banks and financial service providers considerably expanded their share in take-up in Q2 with leases including the Union Investment lease on Neue Mainzer Straße and the Universum Inkasso lease on Hanauer Landstraße. In the space segment of between 1,000 sqm and 4,000 sqm, however, leases signed by other industries, such as public administration, the manufacturing industry and the IT industry were also recorded, illustrating the broad industry range in this space segment.

Around 45% of take-up recorded in H1 was generated in the Frankfurt CBD, which in particular benefited from large-scale leases signed by the European Central Bank (ECB) at Japan Center, by Union Investment and by DZ Bank at Kastor. Five submarkets outside of the CBD already recorded take-up of more than 10,000 sqm in H1. This was only the case in two submarkets in H1 2015. The Niederrad (19,900 sqm), Eschborn (18,300 sqm) and Ostend (17,400 sqm) submarkets especially recorded strong demand, largely driven by large-scale leases. In Niederrad, for example, three leases signed by Steigenberger Hotels, Deutsche Bahn and Atos Worldline accounted for almost 60% of take-up. Eschborn (SAP) and Ostend (Universum Inkasso) largely benefited from single deals supported by high demand in the space segment of less than 1,000 sqm.

Rents

Prime and average rents remained unchanged compared to Q1 2016 at €38.50 per sqm and €19.00 per sqm, respectively. Due to large-scale leases in non-central submarkets of the Frankfurt office market, average rent decreased by €1 per sqm yoy. Prime rent remained stable in comparison with mid-2015.

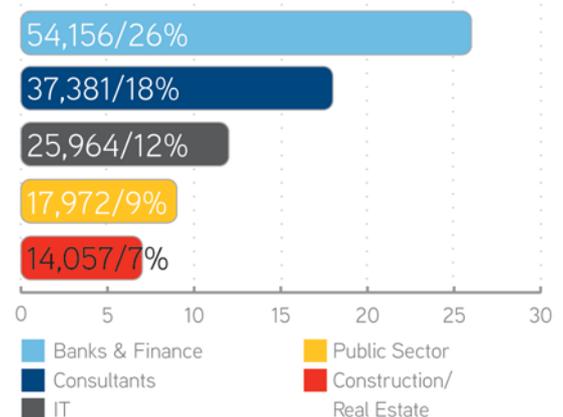
Supply and Vacancy

With a share in take-up of just under 85%, stock buildings experienced strong demand. Only three leases were signed for space in developments or in the planning phase and ten leases were signed for space in buildings under construction. Stock buildings are popular among occupiers in Frankfurt due to their immediate availability and typically very high quality. As attractive project developments will only be adding larger-scale speculative space to the market over the course of the next few years, we are expecting demand for existing space to remain high.

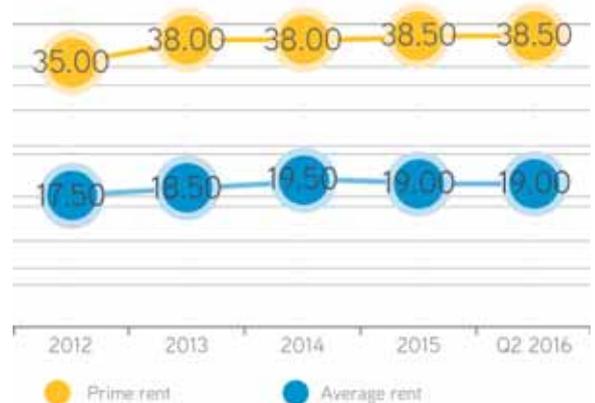
Take-up of space by size (in sqm und %) and number of lease contracts



Take-up by industries – Top Five (in sqm) and share of total office space take-up (in %)



Prime and average rents (in €/sqm)



Available space (in million sqm) and vacancy rates (in %)



Volume of new space (in 1,000 sqm), thereof preleased / owner-occupied



The vacancy drop the market has been experiencing for several years slowed down in H1 2016 with the completion of speculative office space. More than 70,000 sqm of newly built and extensively revitalized office space was added to the market in H1 2016, around 50% of which has not yet been leased. This can largely be attributed to completion of a new-build at Taunusanlage 8 and Turmcenter on Eschersheimer Landstraße. Vacancy remained stable yoy at roughly 1.36 million sqm, reflecting a vacancy rate of 11.8%. As speculative building activity is limited to the CBD, vacancy continues to drop in the other submarkets.

Based on current developments, the completion volume for 2016 is expected to reach around 150,000 sqm. A total of almost 300,000 sqm is currently under construction and scheduled for completion between 2016 and 2019.

Summary and Outlook

The Frankfurt office leasing market experienced a positive H1, recording high demand across all space segments. Based on the current number of companies actively looking for space, we expect activity to remain high and annual take-up results to exceed 400,000 sqm. If companies decide to relocate their offices from London to Frankfurt due to Brexit in the next few months, this is likely to boost the leasing market. Such a development would result in an increase in take-up in connection with a further drop in vacancy and increasing rents in the short to medium term.

Market Overview

LOCATION		TAKE-UP OF SPACE (in sqm)	LEASING TAKE-UP (in €/sqm)	ACHIEVABLE RENTS (in €/sqm)	AVERAGE RENT (in €/sqm)	VACANCY RATE (in %)	VACANCY (in sqm)
(1)	Banking District	60,400	60,400	22.00 - 42.00	30.00	16.3%	235,300
(2)	Westend	16,300	16,300	16.00 - 35.50	22.10	10.0%	80,700
(3)	City	17,100	17,100	12.00 - 36.00	21.80	7.1%	83,900
(4)	Central Station/ Westhafen	9,100	8,700	10.00 - 22.50	16.60	8.4%	84,100
(5)	Bockenheim	1,800	1,800	12.00 - 17.00	14.40	5.7%	13,800
(6)	Europaviertel/ Fair District	1,400	1,400	17.50 - 20.00	19.10	6.4%	5,900
(7)	City West	5,500	5,500	11.00 - 18.50	12.80	15.4%	97,300
(8)	Frankfurt South	10,900	10,900	10.00 - 19.00	14.00	7.4%	50,300
(9)	Airport	6,900	6,900	15.00 - 26.00	18.30	15.4%	80,600
(10)	Frankfurt West	6,600	6,600	9.00 - 13.00	11.30	7.6%	106,700
(11)	Frankfurt North	2,300	2,300	8.50 - 12.50	11.00	11.9%	51,100
(12)	Mertonviertel	14,900	14,900	9.00 - 11.00	10.90	31.8%	83,600
(13)	Eastend West	17,400	17,400	9.50 - 16.50	14.50	5.4%	25,300
(14)	Eastend East	2,000	2,000	8.00 - 12.00	9.10	14.3%	36,700
(15)	Niederrad	19,900	19,900	9.00 - 14.50	12.20	15.2%	102,500
(16)	Eschborn	18,300	18,300	9.00 - 15.00	10.50	17.1%	159,700
(17)	Kaiserlei	300	300	9.50 - 12.00	11.00	29.0%	62,800
TOTAL MARKET		211,100	210,700	8.00 - 42.00	19.00	11.8%	1,360,300



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Fast Facts	
INVESTMENT	
Commercial transaction volume	1,692 million €
Largest purchaser group: (Asset / Fund Manager)	35.0 %
Largest vendor group: (Asset / Fund Manager)	33.0 %
Most demanded property type: Office	81.0 %
Prime yield office	4.30 %

Commercial transaction volume
(in billion €)



Investment

Frankfurt investment market picks up in Q2

Transaction Volume

Transaction volume on the Frankfurt commercial real estate market in H1 2016 amounted to €1.7 bn, down roughly 39% yoy. The Frankfurt investment market experienced a considerable boost in Q2 2016. More than €1 bn was invested in commercial real estate in Q2, although the sale of IBC on Theodor-Heuss-Allee with a transaction volume of around €400 m was the only sale in the price segment of more than €100 m. Roughly 45% of transaction volume was invested in the price segment of between €50 m and €100 m, emphasizing the high demand for space in this market segment.

Buyer and Seller Groups

Asset/fund managers were the most active both buy and sell side in H1 2016, investing around €587 m and selling properties for a total of roughly €561 m. Buy side they were followed by open-ended real estate funds and special funds (approx. €440 m) and project developers (approx. €182 m) ranking second and third. Sell side, project developers sold eleven properties for a total of around €446 m, in particular the Meandris deal on Europaallee sold by Strabag to Triuva. Two hotel projects at the airport and the hotel project at the former site of the Bundesrechnungshof also changed hands in H1. Open-ended real estate funds and special funds also continued to play a major role sell side, selling properties for a total of around €283 m. Lively activity by institutional investors buy and sell side shows that many investors are taking advantage of the current market environment to clean out their portfolios and adapt to new investment strategies.

Foreign investors increased their activity in Q2. They remained hesitant, however, merely reaching a share of around 22% in total transaction volume buy side. German investors were involved as buyers in the four largest transactions this year to date. Historically, large-volume properties are particularly popular with foreign investors. We expect activity to increase considerably over the course of the year, as foreign investors may be looking to invest in properties in the price segment of more than €100 m.

Investment Assets

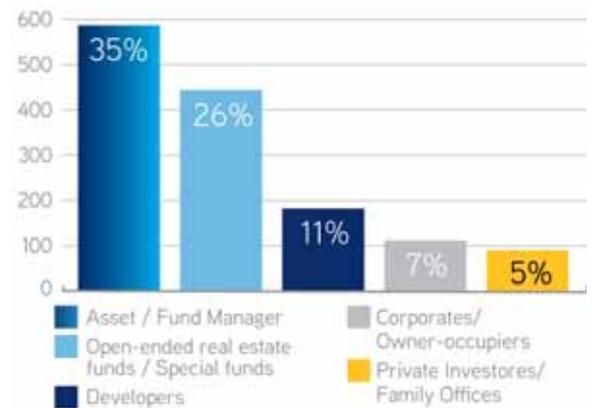
After hotel properties achieved an unusually high share of transaction volume in Q1, office properties returned to first place by a clear margin in Q2. The high market share of hotel properties in Q1 was largely due to a comparatively low total number of transactions, with hotel properties coming in strong with five transactions. Taking a look at H1 as a whole, around €1.4 bn were invested in office properties, reflecting 75% of total transaction volume. Hotel properties remained in second place with around €300 m. All other asset classes only recorded moderate activity, largely due to very limited supply.

Yields in Frankfurt decreased further as a result of ongoing affordable financing conditions, a lack of profitable investment alternatives and resulting high demand for property. (Gross) prime yields for office assets were recorded at 4.30% at the end of H1, down 30 basis points yoy. Even steeper drops in prime yields were recorded for retail assets in the high street segment (-55 basis points to 3.50%) and for logistics properties (-55 basis points to 5.50%).

Summary and Outlook

Activity on the Frankfurt investment market picked up in Q2. However, the results for H1 were still down considerably yoy. This is not the result of a lack of demand but of an absence of large-volume transactions this year so far, which play a major role in transaction volume. The renewed momentum we are currently experiencing on the market will continue over the course of the year. Further transactions are currently in the preparation phase or already up for sale across all price segments. As in past years, we expect the last few months of the year to account for the majority of transaction volume, giving us a typical end-of-year rally on the investment market. Transaction volumes matching those of the previous year remain realistic.

Transaction volume buyers (in million €), Types (in %)



Transaction volume sellers (in million €), Types (in %)



Types of properties (in %)



554 offices in 66 countries on 6 continents

USA: 153
Kanada: 34
Latin America: 24
Asia / Pacific: 231
EMEA: 112

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€ 2.3

billion global turnover

€ 103

billion in transaction volume with more than
80,000 investment- and leasing deals

186

million sqm under management

16,000

professionals

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