



Accelerating success.

Frankfurt | Office letting and investment | 2013/2014

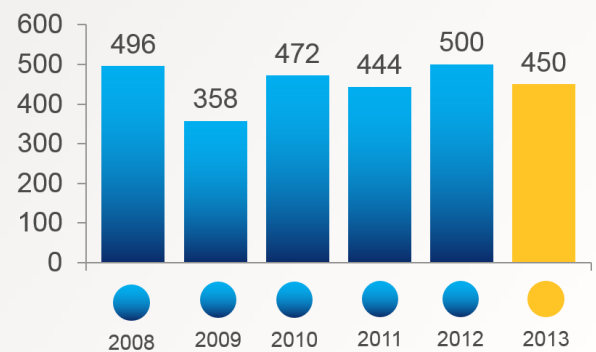
MARKET REPORT

Letting market average – Continued upswing in investment market

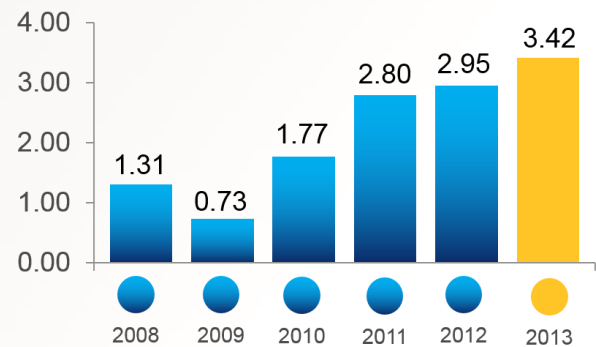
Dr. TOBIAS DICHTL | Research Analyst

- > Letting figures on 5-year-average level
- > Many big extensions of tenancies put pressure on take-up
- > Small floor-space segments up to 1,000 sqm gained market shares
- > Surge in completions, high occupancy rates confirm demand
- > Average rent stable, prime rent keeps on rising
- > Investment market: biggest transaction volume since 2007
- > Open-ended funds and special funds are the strongest group of buyers
- > National investors shape the market, international investors either ready to go or checking out the market

Take-up of office space (in 1,000 m²)



Commercial transaction volume (in billions of euros)





Frankfurt Skyline (Bild: iStockphoto©Thinkstock)

Positive general conditions and a stable economic development paved the way for lively activity in the Frankfurt property market in 2013. The very large volume of transactions in the investment market stands out and underscores how attractive Frankfurt is as a location. Market players were also very busy in the office letting market, although this is reflected only to a limited extent in take-up figures.

Small deals and extensions of tenancies are the feature of the market

With a take-up of space of approx. 120,000 sqm in the fourth quarter, a total of about 449,500 sqm of office space was let in 2013, 13% down on the previous year, yet almost exactly on a par with the 5-year average. Whereas the number of deals in the < 500 sqm segment rose markedly from 419 to 483, in the >1,000-sqm segment we registered 30 deals fewer than in the previous year, with a negative impact on take-up of space. The decrease in take-up of space must, however, be seen in the context of an above-average number of extensions of large-space tenancies. Companies like the European Central Bank (ECB), Allianz Germany, the auditors Deloitte, the French bank Natixis and Deutsche Bahn actively scrutinised the market and alternative office space before they decided to extend their existing tenancy agreements or conclude a new tenancy agreement in the existing building. Together with other small-space extensions the total office space whose tenancy agreements were extended after market scrutiny in 2013 was in excess of 200,000 sqm. Hence market activity in 2013 exceeded what the take-up of space would lead one to assume.

RESEARCH CONTACT



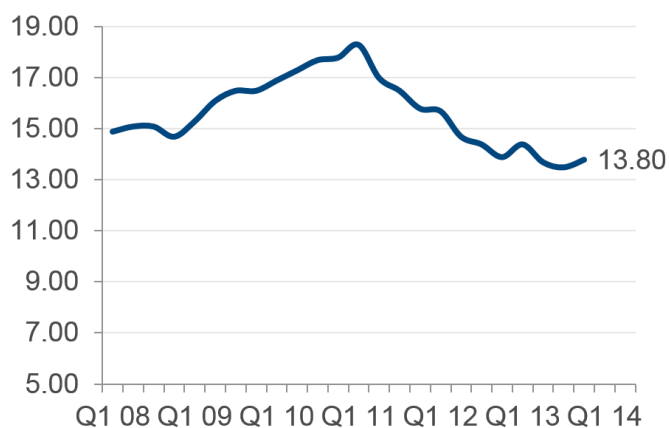
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CBD still the most in-demand market

The Central Business District (CBD) was again the most in-demand location in Frankfurt in 2013. It has increased its market share of roughly one third in recent years considerably to 43.6%. The deals show that the supply of centrally located prime space created by project developments and redevelopments is being accepted by tenants. These include the TaunusTurm, due for completion in the first quarter of 2014, and the Taunusanlage 8 and 11 (T8 und T11) developments. Four new office buildings are being erected on the former Degussa site, with the new name of the MainTor quarter, including a high-rise building and prime residential property.

Vacancy rate (in %)



● Vacancy rate in %

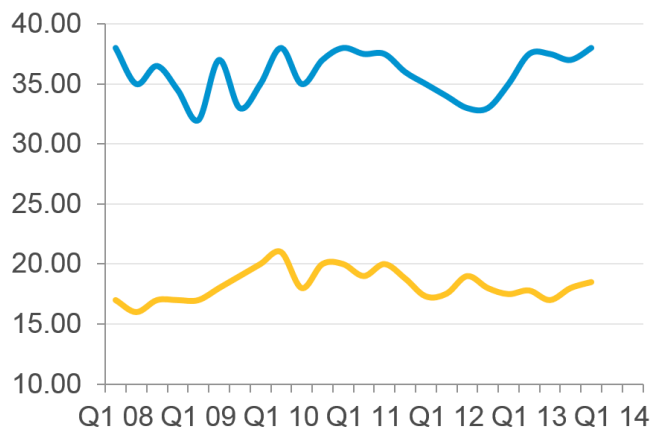
In the Frankfurt West sub-market the take-up of space by the Commerzbank, more than 46,000 sqm in the Lateral Towers (formerly the HQ of the German Stock Exchange), Deutsche Telekom's take-up of 14,500+ sqm and Deutsche Bahn's approx. 5,500 sqm took the total clearly over 77,000 sqm, equating to a market share of 17%. In the previous year take-up in this sub-market was about 39,000 sqm.

Vacancy rate constant despite high volume of completions

In 2013 there was some 167,000 sqm of new office space completed, a rise of 76% to the previous year. Because of the high pre-letting rate of 84%, the volume has only a minimal effect on the vacancy rate. With a vacancy rate of 13.8% available space is practically constant (-10 base points). With the completion of sizeable projects, like the TaunusTurm and the new European Central Bank HQ, there is expected to be about 300,000 sqm of office space coming onto the market in 2014. However, approx. 77% of this space has already been

pre-let or is owner-occupied, due primarily to the ECB's 104,000 sqm. So, not much change in the supply of space is expected in the course of 2014.

Prime rent and average rent (in €/m²)



● Prime rent ● Average rent

Average rent slightly up, prime rent rising further

The supply of premium central space in projects like the TaunusTurm, T8 and the MainTor quarter pushed the prime rent up in 2013 by € 3.00 (8.6%) to 38.00 €/sqm. Here the modern, high-quality level of supply meets the demand from companies with a very good credit rating. Further projects mean that in 2014 and beyond there will also be supply of space in the top locations, especially in the banking quarter. Hence the prime rent is not expected to go down. The average rent achieved in the Frankfurt market area last year was also up on the previous year. The average rent rose by 1.00 €/sqm (5.7%) to 18.50 €/sqm. Besides the deals in the top properties there were also other major deals in the upper price segment from 20.00 €/sqm upwards that were responsible for the rise in the average rent. One in four contracts signed was in this price category.

Banks and financial service providers the most active tenants

Banks and financial service providers stepped up their activity markedly in 2013, and at 31% represented the busiest sector by far, concluding 78 new tenancy agreements in 2013 as opposed to 49 in 2012. In addition to the Commerzbank letting referred to above, the interim letting of the new European Banking Regulator in the Japan Center and Universal Investment's conclusion of a tenancy agreement in the IBC contributed to the good result for the sector. Management consultants were also just as busy (approx. 74,600 sqm) as in the previous year (roughly 73,500 sqm), yet their market share rose from 14 to 17% owing to the lower overall take-up.

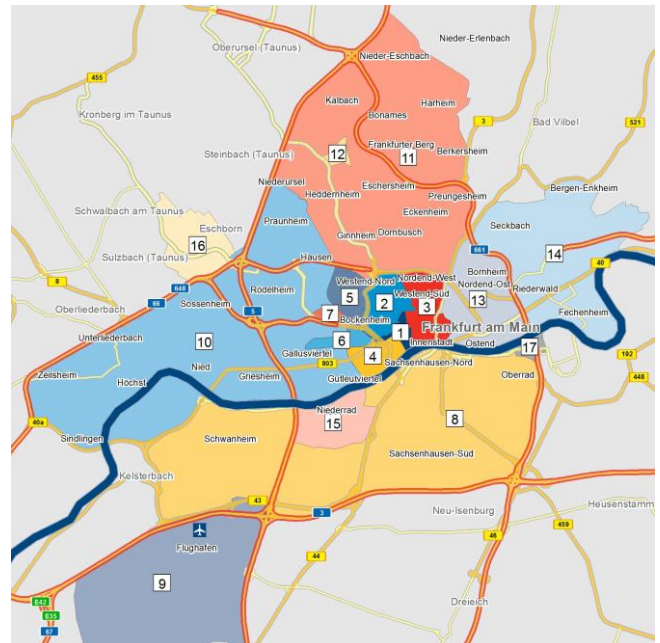
Focus still on the banking district

In 2014 the banking district is still the development focus for the office property market in Frankfurt. Besides the completion of the TaunusTurm there is also more prime space available in the T8 and T11 projects and in the MainTor quarter. In addition, further project developments are possible along the Taunusanlage. Hochtief Projektentwicklung is planning one or two buildings covering at least 60,000 sqm (gross floor space) on the Taunusanlage 9 and 10 properties. As the advisory procedure is finished, the project implementation now seems almost within reach for the first time. New buildings are being constructed or are in the pipeline along Mainzer Landstraße. The high demand for space in this area confirms the developers' projects.

In other sub-markets, too, additional office space is being made available through project developments. In the Europa quarter, office and residential space is being developed on the undeveloped construction sites. Immediately adjacent to the airport there are currently undeveloped properties available in the Gateway Gardens project area with potential for office and logistics space project developments, benefiting in particular from the direct link to the airport and the motorway network.

Fast Facts	
Office letting	
Take-up	449,500 m ²
Letting take-up	432,900 m ²
Prime rent	38.00 €/m ²
Vacancy rate	13.8 %
Office stock	11.7 Mio. m ²
Investment	
Transaction volume	3,421.8 Mio. €
Largest group of buyers: Open-ended real estate funds and special funds	30.7 %
Largest group of sellers: Developer	31.0 %
Most important type of real estate: Office	78.8%
Prime yield office	4.85 %

Sub-markets Frankfurt



Key facts

Office letting market Frankfurt 2013

Submarkets

Location	Take-up	Sustainable rents	Average rent	Vacancy rate	Vacancy (1)	Space potential (2)	Space supply (3)
CBD							
(1) Banking district	89,912 m ²	25.00 – 41.00 €/m ²	29.50 €/m ²	14.8 %	207,651 m ²	36,290 m ²	243,941 m ²
(2) Westend	44,557 m ²	18.00 – 35.00 €/m ²	23.00 €/m ²	11.6 %	103,169 m ²	48,480 m ²	151,649 m ²
(3) City	62,657 m ²	12.00 – 32.00 €/m ²	19.50 €/m ²	12.0 %	136,994 m ²	6,233 m ²	143,227 m ²
Other Locations							
(4) Central Station/ Westhafen	25,994 m ²	9.00 – 22.50 €/m ²	14.00 €/m ²	8.2 %	86,142 m ²	47,825 m ²	133,967 m ²
(5) Bockenheim	2,402 m ²	12.00 – 15.00 €/m ²	14.50 €/m ²	14.6 %	37,070 m ²	0 m ²	37,070 m ²
(6) Europaviertel/ Fair district	19,151 m ²	16.50 – 19.50 €/m ²	17.00 €/m ²	15.2 %	11,081 m ²	424 m ²	11,505 m ²
(7) City west	32,674 m ²	11.50 – 18.50 €/m ²	15.00 €/m ²	16.5 %	101,832 m ²	0 m ²	101,832 m ²
(8) Frankfurt south	16,014 m ²	10.50 – 17.00 €/m ²	14.00 €/m ²	8.7 %	58,154 m ²	3,566 m ²	61,720 m ²
(9) Airport	3,706 m ²	15.00 – 26.00 €/m ²	17.50 €/m ²	13.2 %	66,258 m ²	0 m ²	66,258 m ²
(10) Frankfurt west	77,167 m ²	9.00 – 13.00 €/m ²	12.50 €/m ²	10.4 %	151,600 m ²	83,198 m ²	234,798 m ²
(11) Frankfurt north	6,775 m ²	8.50 – 12.00 €/m ²	10.00 €/m ²	14.9 %	64,026 m ²	4,350 m ²	68,376 m ²
(12) Mertonviertel	5,449 m ²	9.50 – 12.00 €/m ²	11.00 €/m ²	32.3 %	88,936 m ²	958 m ²	89,894 m ²
(13) Eastend west	19,351 m ²	8.00 – 16.00 €/m ²	11.50 €/m ²	12.3 %	45,901 m ²	5,929 m ²	51,830 m ²
(14) Eastend east	5,486 m ²	8.00 – 12.50 €/m ²	9.50 €/m ²	40.4 %	103,702 m ²	7,515 m ²	111,217 m ²
(15) Niederrad	12,159 m ²	9.00 – 14.00 €/m ²	12.00 €/m ²	17.4 %	133,156 m ²	46,686 m ²	179,842 m ²
(16) Eschborn	25,754 m ²	9.00 – 14.00 €/m ²	12.00 €/m ²	18.1 %	166,937 m ²	10,747 m ²	177,684 m ²
(17) Kaiserlei	280 m ²	9.00 – 10.50 €/m ²	9.00 €/m ²	15.8 %	43,673 m ²	8,637 m ²	52,310 m ²
Total	449,488 m²	8.00 – 41.00 €/m²	18.50 €/m²	13.8 %	1,606,282 m²	310,838 m²	1,917,120 m²

(1) Vacancy = office space available within 3 month

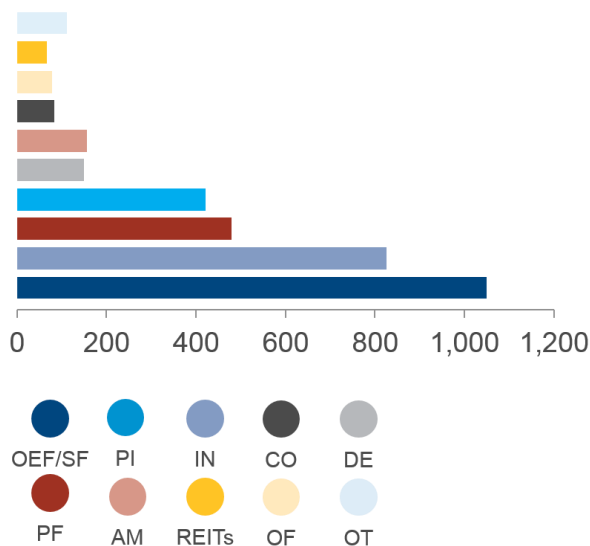
(2) Space potential = office space available within 3 to 12 month

(3) Space supply = vacancy + space potential

Investment market very strong again

The investment market's strong performance continued in the fourth quarter of 2013. With a transaction volume of € 1.18 billion in the last quarter the year-end result was up at € 3.42 billion, the highest figure since 2007. The previous year's result was already very good, but was again significantly surpassed by 16%, even though the number of deals stayed largely constant. The focus of investor interest was again on office property, at 79% accounting for the lion's share of the transaction volume. It was some way ahead of the retail trade and hotel properties. The small number of deals in these segments illustrates the lack of supply and explains the small shares. Commercial properties attracted much more attention in 2013 with a volume of € 62 million and eight deals. Three properties in particular in the CBD and the Europa quarter with potential for prime project developments played their part in the high take-up figure. As in previous years, the market was driven by large-volume transactions in the CBD, accounting for 76% of the transaction volume in 2013. The biggest investments of the year, like the share purchase in Tower 185, the purchases of the Skyper, Gallileo und WestendDuo high-rise buildings and of the ONE Goetheplaza commercial building, were all made in the CBD. With a 15.7% share in the transaction volume, the importance of portfolio deals in 2013 was comparable to the previous year (18.2%).

Transaction volume according to buyer groups (in millions of euros)



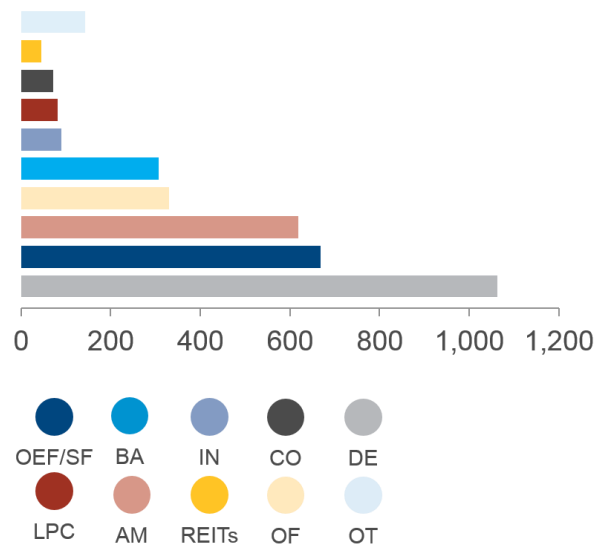
OEF/SF = Open-ended real estate funds / Special funds, PI = Private Investors, IN = Insurance companies, CO = Corporates / Owner-occupier, DE = Developers, PF = Pension funds, AM = Asset manager, OF = Opportunity / Private Equity Funds / OT = Other Investors

The focusing on the CBD also correlates with the continuing discernible concentration on reliable, large-volume investment properties. At € 2.1 billion, 62% of the transaction volume went into core properties, a clear increase on the 43.7% share the previous year. Because of the short supply of prime existing properties, investors are increasingly prepared to adapt their risk profile and therefore their investment strategy to the market conditions on the supply side. To achieve the desired yield targets investors are increasingly accepting location, construction and duration risks. Forward deals in Frankfurt's CBD are becoming the focus of high-equity investors more and more. The monies are invested as forward purchase and forward funding to secure the investment products in the top locations.

Open-ended funds and special funds well ahead of the rest of the field

With an investment volume of € 1.05 billion, open-ended property funds and special funds, which as popular investment vehicles for the equity capital of institutional investors are benefiting hugely from the current market situation, were the busiest buyers on the Frankfurt investment market. They increased their share from 19.3% in the previous year to 30.7%.

Transaction volume according to seller groups (in millions of euros)



OEF/SF = Open-ended real estate funds / Special funds, BA = Banks / OF = Opportunity / Private Equity Funds, CO = Corporates / Owner-occupier, DE = Developer, IN = Insurance companies / AM = Asset manager / LPC = Listed property companies / OT = Other Investors

In second place were pension funds, which showed through few large-volume purchases like the share purchase in Tower 185 and invested € 826.5 million in Frankfurt. Asset and fund managers, who numbered in the previous year among the most

active groups of buyers, were only low-profile in 2013 with an investment volume of € 155 million and four deals. On the vendor side, as expected project developers and building contractors were the busiest players with a 31.9% share of the transaction volume, followed by open-ended property funds and special funds as well as asset and fund managers.

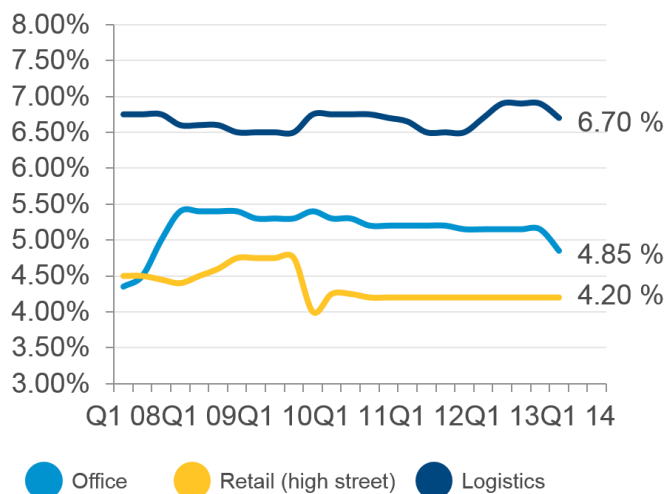
National investors define the market

After a strong showing by international investors in 2012, the Frankfurt investment market in 2013 was shaped on both the buyer and seller side by national investors. For instance, international investors accounted for a 30.2% share of the investment volume, following 58% the previous year. The most active group among the international investors was private investors and family offices, who invested more than € 300 million in four properties. On the vendor side the international players' share was 38.3%, again lower than in the previous year (49.4%). However, there is lively activity from international investors – especially from Asia – evident in the Frankfurt property market that has not yet translated into a sizeable number of transactions. The share of international investors is therefore expected to rise in the next few years.

High demand puts pressure on yields

As a result of the high demand for core properties in the CBD the gross prime yield for office properties was down markedly by 30 base points at 4.85%.

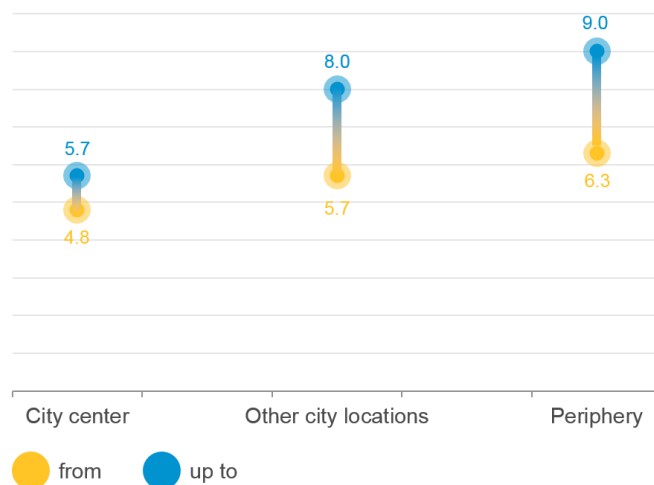
Gross initial yield by asset type (in %)



Yields for retail trade properties are unchanged on a low level, with few deals being effected owing to the limited supply. The low yields indicate that Frankfurt is highly attractive as a location for property investments. The concentration of demand in centrally located prime properties is also evident in

the yield spreads, which continue to remain constant for the urban locations and outskirts, whereas the yield spread in the centre has shifted slightly downwards.

Yield spreads office by location (in %)



Conclusion: Average letting figures, investment market still very strong

At 449,500 sqm, take-up of space is below the figure for the previous year, yet fairly average for the last five years. However, because in 2013 an unusually large number of searches for space ended up as extensions of tenancies, the market activity was higher than the take-up figures show. The good general economic conditions allow a slight rise in take-up of space to be expected for 2014.

The very high investment volume is also a product of the positive development of the Frankfurt office letting market in recent years. Stable letting take-up and lower completion rates with high pre-letting rates have resulted in a decrease in the vacancy rate by 4.5 percentage points since the beginning of 2011. The combination of low interest rates, the lack of profitable alternative forms of investment and the stable economic development in Germany and Frankfurt is creating a positive environment for investments in commercial properties. Because of the limited supply we are expecting a moderate decrease in the investment volume in Frankfurt for 2014 despite continuing high demand.

482 offices in 62 countries on 6 continents

United States: **140**

Canada: **42**

Latin America: **20**

Asia Pacific: **195**

EMEA: **85**

\$2

billion in
Annual revenue

1.12

billion square feet
under management

13,500

professionals
and staff

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