

Update on Frankfurt's office market¹

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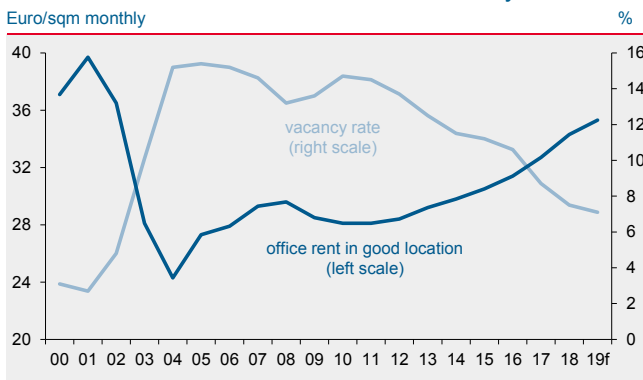
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- The Frankfurt office market continues to benefit from buoyant demand with moderate construction activity, with the result that office rents are rising and vacancy rates have recently fallen to around 7 %.
- Even before the United Kingdom withdraws from the EU, Brexit is generating additional momentum.
- Given a number of major project developments, there is unlikely to be a real shortage of office space in the years ahead.

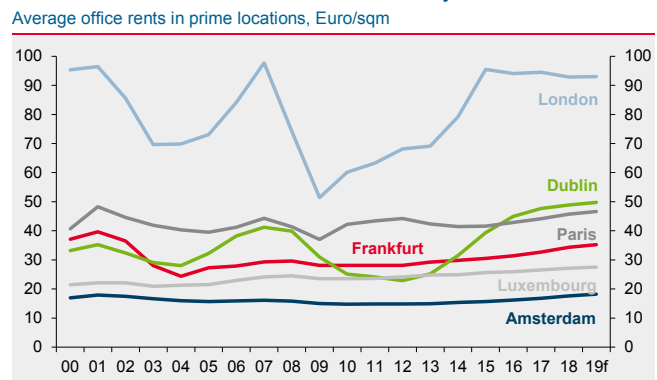
Rising rents and falling vacancy rates have again characterised Frankfurt's office market in 2019. Average office rents in prime locations have been rising for years, but are still below the historic peak at the turn of the millennium. In a comparison of German office locations, Frankfurt has by far the highest rents. However, when compared to other European financial centres, Frankfurt does not seem expensive: rent levels are still considerably lower than in London and noticeably lower than those in Paris and Dublin – an advantage in the competition between financial centres.

Frankfurt's office rents rise further, vacancy declines



Sources: Scope, Helaba Research

London, Dublin and Paris more costly than Frankfurt



Sources: Scope, Helaba Research

This publication was very carefully researched and prepared. However, it contains analyses and forecasts regarding current and future market conditions that are for informational purposes only. The data are based on sources that we consider reliable, though we cannot assume any responsibility for the sources being accurate, complete, and up-to-date. All statements in this publication are for informational purposes. They must not be taken as an offer or recommendation for investment decisions.

The office vacancy rate in Frankfurt has declined in recent years from a peak of over 15 % to a current level of about 7 %. The main factor has been the ongoing boom on the labour market: from 2008 to 2018, the number of employees subject to social insurance contributions in the city rose by more than 96,000, with 19,000 being added to payrolls last year alone. It is estimated that almost half of this increase is attributable to office jobs. The conversion of office space into residential space, in particular, has likely played an equally important role in reducing vacancies. Nevertheless, Frankfurt still has the highest vacancy rate among the leading German office locations together with Dusseldorf (6 %), while in Berlin, Munich or Stuttgart, at 2 %, there is already a genuine shortage of space.

With 12.6 million sqm of office stock in Frankfurt, less than 900,000 sqm are currently vacant. Availability in the central locations preferred by the financial sector has become scarce, with a vacancy rate of around 4 %. In less attractive locations, such as Niederrad, Mertonviertel or Esch-

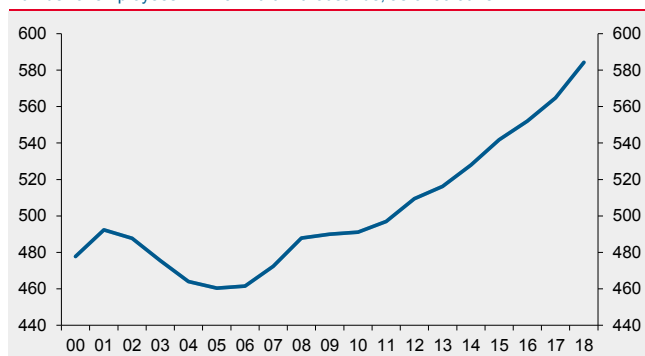
¹ This Real Estate Report is an excerpt from our publication „[Financial Centre of Frankfurt: More than Brexit](#)“ of 1 October 2019.

born, it continues to be in the double-digit percentage range. It should also be borne in mind that less than half of vacant office space in Frankfurt now boasts modern facilities and less than one-fifth is in inner-city locations, including the banking district and Westend. It has become difficult to find suitable office space in this segment of the office market.

This also applies to Brexit banks, that would like to relocate to Frankfurt and which as a rule prefer a central location. However, some of them are not even dependent on a new lease, as they can accommodate additional employees at their current locations. In most cases, this will initially involve a limited increase in staff numbers, which will only be increased over time. The growing availability of co-working space could provide the necessary flexibility in this respect. Although there is only a short time remaining before the latest Brexit deadline is upon us, it is surprising that only a small number of new lettings have so far been directly related to Brexit. In broker reports, the issue of Brexit had almost disappeared in the first half of 2019.

Rising demand for offices due to higher employment

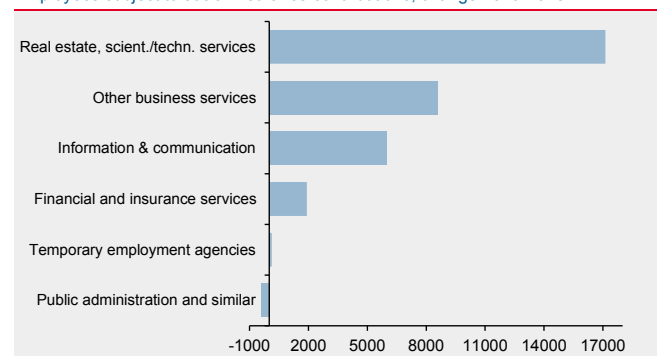
Number of employees* in Frankfurt in thousands, as of 30 June



*subject to social insurance contributions
Sources: Federal Employment Agency, Helaba Research

The service sector drives demand

Employees subject to social insurance contributions, change 2013-2018*



*sectors particularly relevant to office market, as of 30 June
Sources: Federal Employment Agency, Helaba Research

The Brexit-related increase in office staff in Frankfurt will be spread over several years. However, there will be on-going consolidation in the banking industry, which is likely to gain momentum as a result of the negative interest rate environment, a situation that will presumably be entrenched for years to come. Consequently, our employment forecast for the banking sector over the next two years is more modest than would be expected thanks to Brexit alone. Additional office demand from the banking sector in Frankfurt as a whole should, therefore, remain very limited over this period.

Demand for space not limited to banks

Over the next few years, numerous jobs will also be created in other sectors that are of relevance to the regional office market. In the first half of 2019, the financial sector again outperformed other service sectors such as consulting firms and co-working providers in terms of rental turnover. However, demand for office space in Frankfurt is broadly diversified. A glance at employment data shows that the impetus in the last five years did not come from the financial sector. Among the services of relevance to the office market, scientific, technical and other business services, including real estate and the information and communication sector, are the most prominent. Thus, even excluding Brexit, the number of office employees will continue to increase significantly over the next couple of years. Accordingly, demand for space should remain high.

Significantly more completions in 2019

Nevertheless, the fact that there will be no major bottlenecks on Frankfurt's office market will largely be due to a number of project developments. If 2017 and 2018 each saw the completion of well below 100,000 sqm – not even half of the long-term average – about 170,000 sqm are expected to be realised this year. These include major projects such as Marienturm and Omniturm in a central banking location, the Hafengebogen at Westhafen as well as the first two of a total of four buildings of The Docks at Osthafen.

The completion of several major office projects is also planned for next year, which will ensure a growing supply of space. These include the Global Tower and Junghof Plaza with more than 50,000 sqm of space in a central location as well as Grand Central and DB Brick (together providing almost 70,000 sqm), both of which have been fully leased by Deutsche Bahn. With Sky Eschborn and The Twist, two major completions are also planned in secondary locations. It will probably be three years before the largest project, Four Frankfurt, located on the former Deutsche Bank site with around 100,000 sqm of office space, is completed.

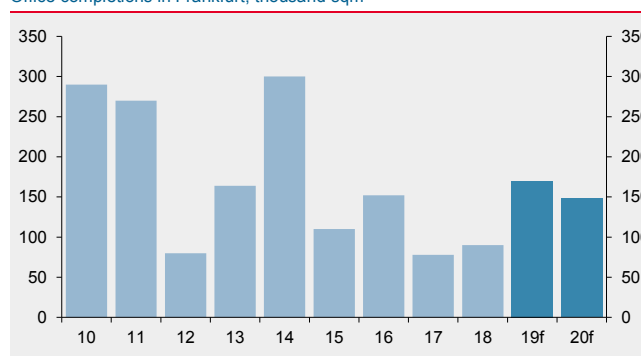
Selected office projects in Frankfurt

Project	office space, sqm	completion
Junghof Plaza	23,000	2020
Grand Central	45,000	2020
Global Tower	28,500	2020
DB Brick	23,000	2020
Sky Eschborn	15,000	2020
The Twist	12,500	2020
ONE	43,000	2021
99 West	24,000	2021
Europa Center	31,500	2021
Four Frankfurt	100,000	2023/2024
Hafenpark Quartier	56,000	2024

Sources: Press releases, developer, Helaba Research

Higher level of completions, but not too high

Office completions in Frankfurt, thousand sqm



Sources: Scope, Helaba Research

There is also a lot going on in the surrounding area. One example are plans for the Spring Park Valley project in Bad Vilbel's Quellenpark, 12 km from downtown Frankfurt. According to the investor, this is where 6,500 people will be living and working in Europe's largest innovation district in five years' time.

Rents approaching previous record highs

Office vacancies in Frankfurt are likely to decline further for the time being. In view of the well-stocked development pipeline, however, over the next few years we do not expect the vacancy rate to fall to the 2 % seen in other top German locations. Even the additional demand generated by Brexit will not change this situation. Office rents in good locations should continue to rise in 2020, approaching their previous record highs at the beginning of the millennium. This means that Frankfurt will remain an affordable office location in comparison to its global financial centre peers. Relative to the long-term average, rental turnover should remain high, which is confirmed by the strong letting figures in the first half of 2019. ■