INVESTMENT MATCHES LONG-TERM AVERAGE

As was only to be expected, turnover in the Frankfurt investment market in the first quarter of 2016 was well below the record set last year. All the same, at 603 m €, it was on a par with the ten-year average. The year-on-year decline was not due to any fall in investor demand but entirely to the shortage of large-volume offers. At present, this applies especially to office buildings, something highlighted by the fact that there have so far been no sales in the triple-digit million euro range. In the other size classes, however, market activity has once again been lively – and the transaction volume generated by single deals, 522 m €, was actually more than 10 % above the long-term average. What is unusual for the Frankfurt market is the fact that the biggest deals so far involve not office buildings but, above all, hotels. Examples are the purchase of Villa Kennedy by the GEG German Estate Group and the Union Investment project development for a Hyatt Place Hotel in the Gateway Gardens business park.

STRONG DEMAND IN MID-RANGE SIZE SEGMENT

The investment volume has up to now been fuelled predominantly by medium-sized transactions. The two size classes 25–50 m € and 50–100 m € each generated just over 36 % of aggregate turnover. But smaller assets priced at up to 25 m € have also contributed over one quarter of the total, with the segment up to 10 m € actually more than doubling its prior-year volume in absolute terms. In contrast, up to now no sales of over 100 m € have been registered, which is distinctly unusual by Frankfurt standards. But taking just the results in the categories up to 100 m € into consideration, the first-quarter total was only 14 % below last year’s record level.

UNUSUAL ASSET-CLASS DISTRIBUTION

The way investment is spread across the different asset classes presents a picture that is out-of-the-ordinary for Frankfurt. Although office buildings again take first place, their share, at slightly more than 46 %, is considerably below the long-term average of nearly 70 %. In contrast, there has been disproportionately high investment in hotels, giving them a turnover share of just over 36 %. The contribution made by the category of miscellaneous real estate – which covers different forms of occupancy – is also unusually high, at 17 %. Up to now, retail and logistics products have attracted either no investment at all or else only a marginal amount.
BIGGEST TURNOVER OUTSIDE THE CENTRAL PRECINCTS

Another unusual picture is presented by the distribution of investment turnover across the market area: more than two-thirds of all the capital deployed went into the subcentres (more than 36 %) and the periphery (over 32 %). The Centre Fringe, with a share of just under 18 %, also finished in front of the City Centre zones, which only generated a share of just under 14 %, as against a long-term average of well over half of all investment. This exceptional situation is due decisively to the current shortage of large assets in what are generally the favoured top parts of Frankfurt.

FOUR BUYER GROUPINGS WITH DOUBLE-DIGIT SHARES

More than 83 % of the transaction volume was generated by four buyer groupings which all obtained double-digit shares of the total. Way out in front of the rest of the field with somewhat more than one-third of all turnover came investment managers. Second place was taken by equity/real estate funds, with just over 19 %. Then, fairly close behind, came open-ended funds (over 15 %) and listed real estate companies/REITs (nearly 14 %). Considerably lower contributions were made by corporates (7 %), and property developers and private investors (each: almost 4 %). All the other categories of investors exhibited only very little activity or none at all in the first three months.

YIELDS AT END-OF-2015 LEVEL

In line with the nationwide trend, yields in Frankfurt in the first quarter remained stable, after continuing to ease in all asset classes in the course of last year. But in view of the sometimes substantial extent of last year’s declines, that is hardly surprising. So the prime yield for office buildings is unchanged at 4.30 %. Retail/office properties with premium addresses have a prime net initial yield of 3.80 %, but in special cases this can be even lower. Logistics complexes, which registered the strongest yield falls in 2015, currently post a figure of 5.25 %.

STRONG DEMAND SET TO CONTINUE

At the moment, demand outstrips the available supply of assets. And this will remain the case as the year progresses, since the business framework continues to be positive. Alongside financing terms, that includes the favourable economic prospects and the pleasing development of the labour market. Against this background, a very good result for the year as a whole looks likely. However, because of the shortage of supply, the theoretically potential scale of turnover will remain unsatisfied. So whether this year’s total can pick up from last year’s record has yet to be seen.