INVESTMENT MARKET LIVELY BUT LARGE DEALS RARE

The Frankfurt investment market performed very buoyantly in the first half, but total turnover, at 1.81 bn €, was nevertheless 40 % down on the prior-year figure. But it was still 9 % higher than the ten-year average and was also the third-best result ever registered in any first half. The decline in turnover was due entirely to the inadequate supply of assets in the large-unit core segment rather than to any fall in demand. On the contrary, there has actually been an increase in the interest shown by investors and in the competition between them. However, whereas in the first six months of 2015, the triple-digit million euro range generated nearly 1.6 bn € through five sales, this year’s first half brought a volume of under 400 m € produced by just one sale. The transaction volume outside this size category, though, has been on more or less the same level as in the extremely strong prior-year period and the number of deals covered by this survey has in fact risen slightly year-on-year. Frankfurt is not the only city to face tight supply: the situation in Berlin and Munich is similar.

STRONG DEMAND IN ALMOST ALL SIZE CLASSES

Apart from the category of large deals upwards of 100 m €, whose share of the investment volume fell to just under 22 % (prior year: 52 %), almost all the size classes posted increases. Sales of between 10 and 100 m €, for instance, accounted for 71 % of the result, which represents a relative rise of 25 percentage points over last year. The class of small transactions up to 10 m € actually increased its absolute volume by around 150 % to secure almost 8 %. The biggest slice of investment in the first half went into the 50-100 m € size bracket, with 647 m €, equivalent to nearly 36 % of the total.

ASSET-CLASS STRUCTURE SIMILAR TO PRIOR YEAR

The distribution of turnover between the asset classes corresponded largely to the familiar picture for Frankfurt. Office buildings were well out in front with more than 70 %, fuelled substantially by the sole deal in the three-figure million euro range. Hotels stepped up their performance significantly, with a share of 17.5 % and an absolute volume almost three times higher than before. So Frankfurt, too, has benefited strongly from this asset class’s nationwide increase in importance. In contrast, retail properties suffered an appreciable decline in status, with a share of only just over 2 % (prior year: 10 %).
Investments according to location in Frankfurt H1 in %

<table>
<thead>
<tr>
<th>Location</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Centre</td>
<td>29.8</td>
<td>71.6</td>
</tr>
<tr>
<td>Centre Fringe</td>
<td>15.6</td>
<td>39.4</td>
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<tr>
<td>Subcentres</td>
<td>17.9</td>
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<tr>
<td>Periphery</td>
<td>12.9</td>
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BROAD SPREAD ACROSS MARKET AREA

The City Centre, traditionally Frankfurt's most favoured location for investments, was responsible only for around 30% of all the capital deployed in the first half. This, too, highlights the inadequate supply of large-unit core assets. In the same period last year, the sales of several large office towers accounted for a major proportion of the transaction volume. This year, the biggest slice of investment has been generated in the Centre Fringe precincts (over 39%). But the subcentres (18%) and the periphery (13%) have also been able to step up their relative contributions quite considerably. So overall, investment has been distributed far more evenly across the Frankfurt market area than has been customary in the past.

INVESTMENT MANAGERS STRONGEST BUYERS

By far the most active buyer grouping were investment managers, with close to 41% of all turnover. One thing this reflects is that more and more players from outside the field of traditional real estate investors are opting for indirect vehicles when they want to put money into this sector. All the other categories secured just single-digit percentage shares. Sizeable contributors were property developers (just under 10%), equity/real estate funds (over 9%), open-ended funds (8.5%), special-purpose funds (7%) and listed real estate companies (6.5%).

FURTHER FALL IN YIELDS

The shortage of supply has prompted even stiffer competition for the few available core assets, thus producing a further fall in yields. Yield compression was particularly evident in the second quarter. In Frankfurt - just as in Munich, Berlin and Hamburg - the prime yield for office buildings has slipped below the 4% mark, and now stands at 3.95%. Retail/office properties in premium areas command a net initial yield of 3.75%, or even less in specific cases. Following the marked falls seen in recent quarters, the prime yield for logistics complexes has remained steady at 5.25%.

DEMAND SET TO REMAIN BUOYANT

In the second half of the year, demand will continue unabated. In fact, in view of current political developments in Europe, capital inflows may well increase, as investors look for secure assets. Against this background, all the signs point to a transaction volume that is very high by long-term standards. However, whether it will prove possible to match last year's exceptional result definitely remains to be seen and will depend on the supply coming onto the market. The most probable scenario is a slightly lower turnover. From today's angle, a further modest decline in yields can be expected.