The success story of the Frankfurt investment market continues. After the previous year’s extraordinary turnover, a transaction volume of 1.54 bn € was recorded in the first quarter of 2018. Not only was the result improved by 50%, but a new record was set. The ten-year average for the first quarter was in fact more than doubled. Compared to the rest of Germany, only Munich, where a new all-time high was registered, had a better result. Lively market activity across the board and a few major deals over 100 m € were responsible for the excellent start to the year. The biggest deal is the sale of the Civic Centre (Behördenzentrum) in Gutleutstraße for around 500 m €. Also worthy of note is in particular the old Police Headquarters (Polizeipräsidium) in Friedrich-Ebert-Anlage, which was sold by the State of Hesse for over 210 m € to the Gerchgroup. Here a new-build complex with offices, apartments and a hotel is to be developed for around 800 m €.

Due to major deals, the size category above 100 m € accounts for over half of the investment turnover with just over 53%. This is, even for the Frankfurt market which traditionally has a lot of major deals, a slightly better-than-average share. There is a broad demand base of different investors outside of this market segment, and this is shown by the fact that in particular medium-sized transactions have made a significant contribution to the result. Sales between 25 and 50 m € are responsible for one quarter of the result and increased their absolute investment volume, as did the category between 10 and 25 m €, which contributes just under 13%. However, much less has been invested so far in small properties up to 10 m €.

Office buildings, the most important asset class in Frankfurt, again accounts for by far the biggest share of the investment volume in the first quarter with 70%, which is around the long-term average. Second place is taken by hotels, which contribute just over 5% and have therefore made a much stronger start to the year than in 2017. Retail properties contribute a share similar to the same period of the previous year with over 2%. The just under 18% of the collective category others includes development land, which in turn includes the site of the former Police Headquarters.
Investments by buyer group in Frankfurt Q1 2018

in %

Listed real estate companies/REITs
- Property developers 39.2
- Equity/real estate funds 14.3
- Special-purpose funds 9.6
- Investment/asset managers 5.1
- Corporates 3.7
- Others 3.4

CITY CENTRE CLEAR NUMBER ONE

The City Centre again takes first place in the distribution by location with just under 53 %. The central locations have a much higher share in Frankfurt than in many other German cities. The reason for this is that noticeably more large-volume properties are held in the Main metropolis by professional market participants who are regularly active both on the buyer and seller side in different market cycles. The Centre Fringe, Subcentres and Periphery each have a 15 to 16 % share of turnover. This, too, suggests that investors are confident that overall market will develop very positively in the next few years.

LISTED REAL ESTATE COMPANIES NUMBER ONE

In particular the purchase of the Civic Centre (Behördenzentrum) by Aroundtown has boosted the share of listed real estate companies/REITs, with the result that they lead all investor groups with just over 39 %. Second place is taken by property developers with 17 %, with in particular the purchase of the old Police Headquarters (Polizeipräsidium) reflected in this figure. The top three is completed by equity/real estate funds, which total just over 14 % and have purchased above all office properties in the core plus and value-add segments. Single-digit shares are recorded by major buyers such as special-purpose funds (slightly under 10 %), family offices (almost 8 %) and investment managers (just over 5 %). The share of foreign buyers has clearly increased and is 60 %.

YIELD COMPRESSION TAKES A BREATH

After very significant yield compression of 65 basis points was again seen in 2017, which is also a reflection of the expected dynamic market development, yield compression took a breather in the first quarter of 2018. The net prime yield for office properties remains 3.15 % and is therefore at the same level as in Hamburg. City Centre office buildings in top locations have a net prime yield of 3.10 %, and in exceptional cases it can be even lower. For logistics properties, prime yields are, at 4.50 %, at the same level as in other major logistics agglomerations.

OUTLOOK

For the remainder of the year strong demand and high investment turnover are expected. The position of the banking metropolis, which is already popular, particularly among foreign investors, has improved once again due to the possible positive effects of Brexit. Against this background, a transaction volume in excess of 6 bn € again seems very realistic for the year as a whole. Only an inadequate supply in the large-volume market segment might have a somewhat limiting effect.