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An Introduction to Commercial Office Markets Frankfurt

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An Introduction to Commercial Office Markets - Frankfurt



Marvin Reichert

BA, International Real Estate Management

Academia

- Graduated from THAB in International Real Estate Management.
- Lecturer at THAB (real estate investment management).

Industry

- Co-Founder of BlueHill Estate Group.
- Five years of commercial and residential real estate experience across Germany.
- Specialist in real estate investment management.
- Previous positions with international firms including Goldman Sachs and Tishman Speyer.
- Notable transactions include:
 - » Falcon portfolio (several assets across three jurisdictions).
 - » Deutsche Bank Campus.
 - » Landsberger Straße.



David Hourihan

MSc FSCSI FRICS FHEA

Academia

- Graduated from UCEM MSc in Property Investment in 2008.
- UCEM Programmes Leader for the BSc Real Estate Management and MSc Real Estate.

Industry

- 17 years of commercial real estate experience across the UK and Ireland.
- Specialist in investment, office agency, retail asset management and valuation.
- Previous positions with international firms including JLL and Colliers International.
- Acquisition and asset management instructions for clients including Société Générale, Metzler Bank, Mobil Oil, Scottish Widows, Aviva and British Land.
- Member of the Investment Property Forum (IPF).

SCSI / RICS APC

- APC Chairman.

Introduction: The German Office Investment Market - Size

German Major Cities



Source: Knight Frank

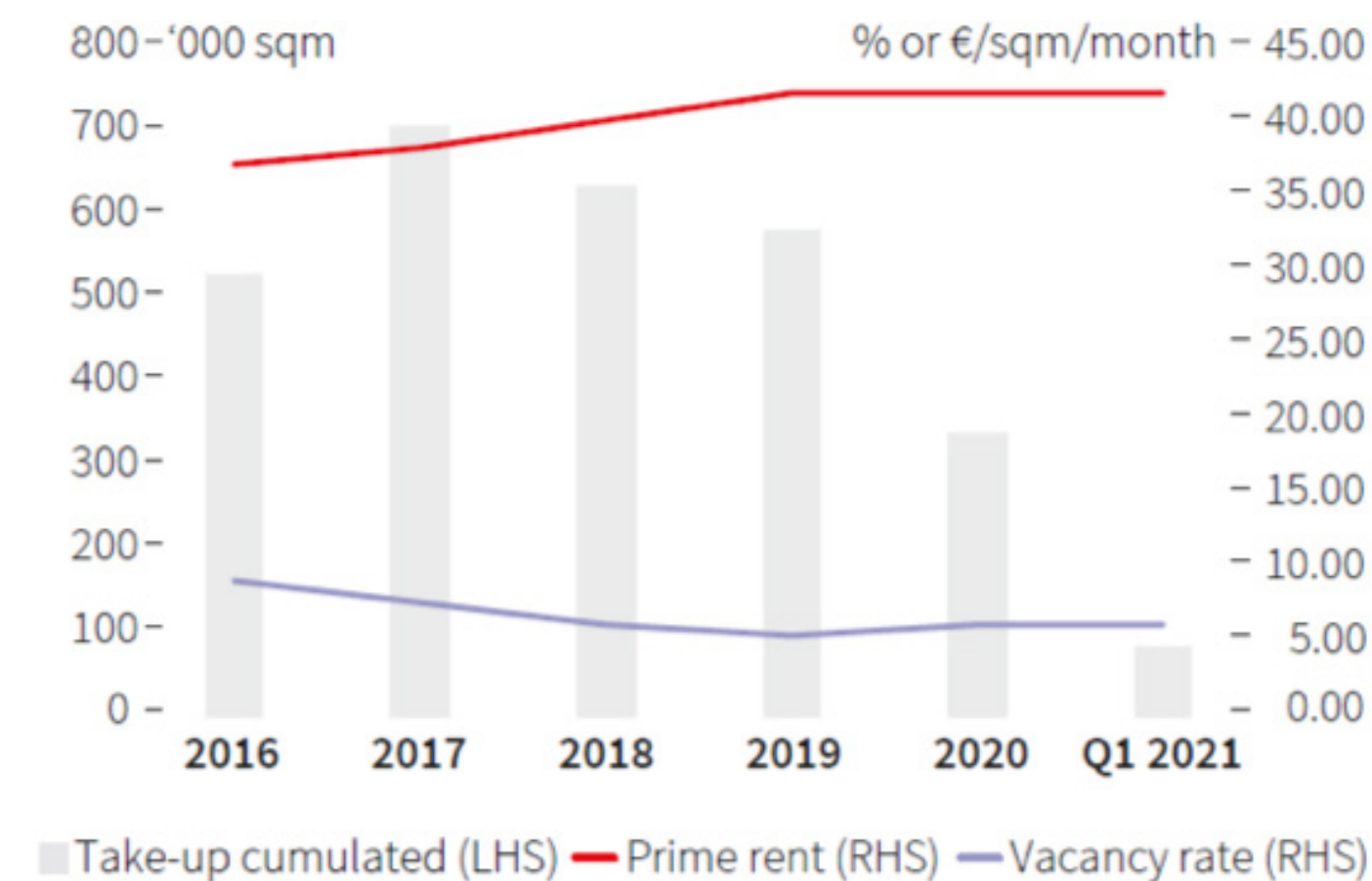
German Office Lease Terms:

- Common lease agreements based on the Bürgerliches Gesetzbuch (the German Civil Code).
- Any additional lease clauses must comply with this Civil Code.
- Commercial leases less regulated in comparison to residential leases (they are generally viewed as more tenant friendly).
- Rents usually quoted in Euros per sq m and are payable monthly in advance.
- Commercial leases are usually 5-10 years and often with an option to renew for another 5 years. (Longer leases of 15-20 years normally associated with retail units).
- The maximum lease term is 30 years. Each party can thereafter terminate the lease after a statutory notice period.
- Break options in leases are freely negotiable and normally occur in year 5 of a longer lease.
- For leases with a minimum lease term of 10 years rents are adjusted annually in accordance with the German Consumer Price Index. Alternatively, some leases have pre-agreed 'stepped' rental increases.
- Under German law the landlord is liable for any maintenance and repairs in a building, however, in practice, most lease agreements shift some responsibility for internal repairs and decorations to the tenant.
- In a multi-tenanted building, each tenant will pay towards a service charge for water, cleaning, heating and waste disposal, any property tax ("Grundsteuer") and building insurance.
- Subletting only permissible with landlord's prior consent. If consent is unreasonably withheld, then the tenant can terminate the lease.

Frankfurt Office Lettings Sub-sectors

Frankfurt Office Occupier Market

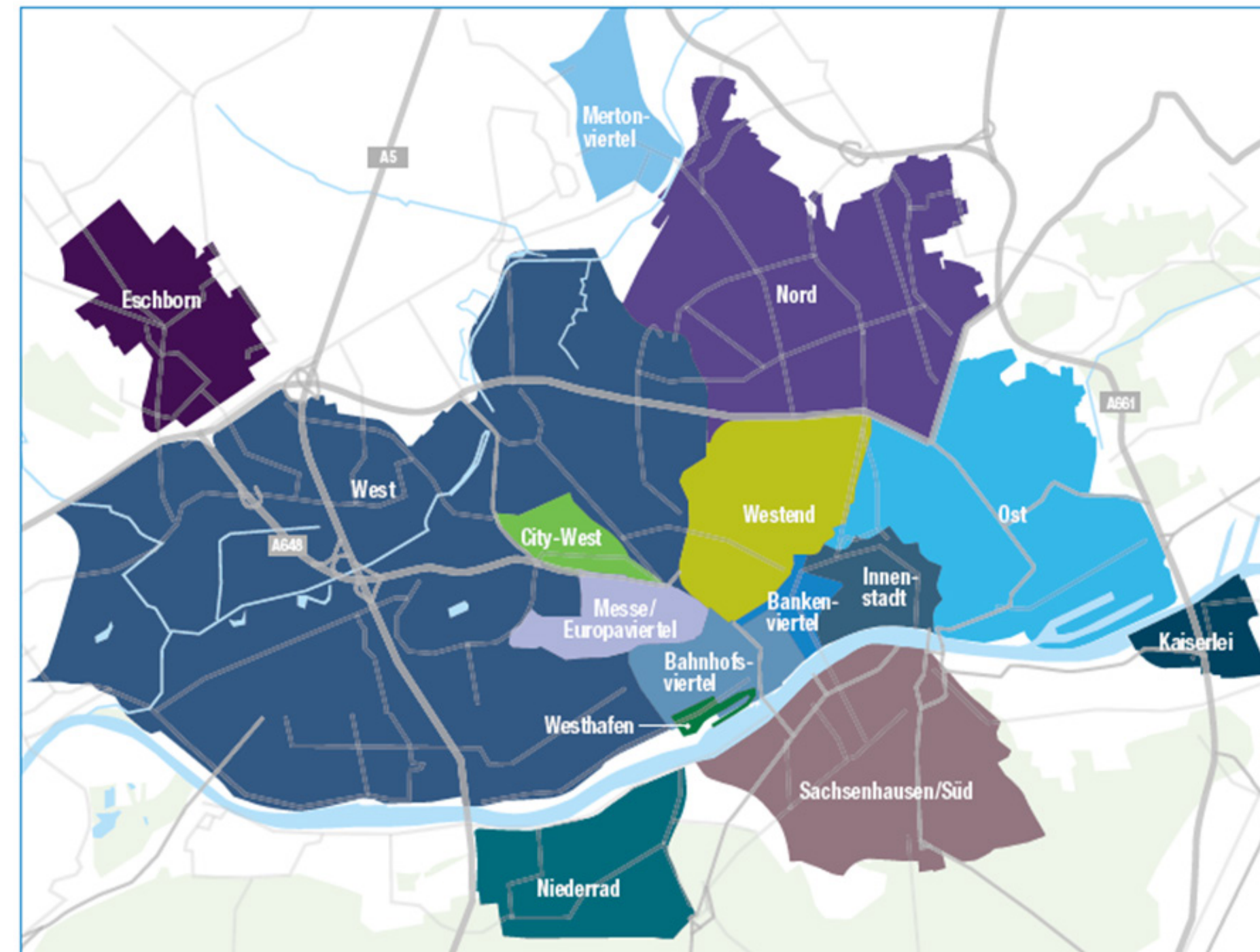
2021 Q1 - Office Occupier Market



Source: JLL 2021 Q1

- Total office stock: approx. 12 m sq m. (Munich: 20.1 m sq m, Berlin: 17.4 m sq m, Hamburg: 14.6 m sq m).
- Key Industries: Banking, financial services, business services and media.
- Key office districts: Bankenviertel (Banking District), City and Westend.
- Spitzenmiete (Prime) rents per sq m: Bankenviertel: €46.00, Westend: €44.00, Innenstadt: €40.
- Second weakest start to the year in the last 10 years.
- Leerstandsrate (Vacancy) rate in top submarkets at 4-5%.

Frankfurt Office sub-markets

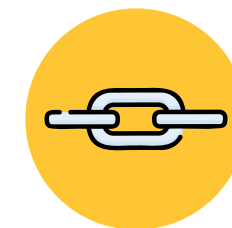


Source: Knight Frank

The Frankfurt Office Investment Market - Structure

Frankfurt Office Investment Market - Turnover SWOT Analysis of Frankfurt Office Investment

- Turnover in Frankfurt investments in Q1, 2021: €980m.
- 15% above the 10 Years average.
- Main investor interest in small (<€25m) to medium (<€100m) sized individual investments, not portfolios (unlike last year). Cautious confidence in the long-term characteristics of the Frankfurt market.
- Second best only to Berlin in terms of volume of deals.
- Office investment sector dominated the Frankfurt investment market, accounting for 77.7% of deals done (10 years average: 70%).
- Lack of supply meant that there are currently very few office investment deals in the City Centre sub-market.
- Broad range of investor types active in the Frankfurt market: Institutional investors, REITs, High Net Worth Individuals etc.
- Net prime office yields in Frankfurt: 2.75%.



Strengths

- JLL GRETI 2020 (11th edit) – Germany ranked no 10 out of 99 countries and territories.
- Germany is Europe's largest investment market.
- Compressed prime yields – Very limited supply of Core investments.
- Excellent transport links: International Airport, major railway station and motorway links.
- No restrictions on the foreign ownership of German property.



Weaknesses

- Purchaser subject to a Grunderwerbsteuer (real estate transfer) tax of between 3.5% - 6.5% depending on the German state.
- Uncertainty remains as to the UK's trading relationship with the EU post Brexit.
- Global economic recession.
- Space measurement practices vary between cities and developers.



Opportunities

- Influx of office occupiers into Frankfurt post Brexit.
- Investors with higher tolerances to risk will find more opportunities.



Threats

- Unknown long-term impact of COVID-19.
- L-shaped recovery expected, characterised by a fall and then stagnation of activity.
- Possible political uncertainty at home: Federal elections in September 2021/ Chancellor Angela Merkel also stepping down after 15 years.
- Tensions between the democratic and authoritarian states within the EU.
- Further pandemic lockdowns.

Frankfurt Office Investment Market - Key Trends & Forecasts



Trends

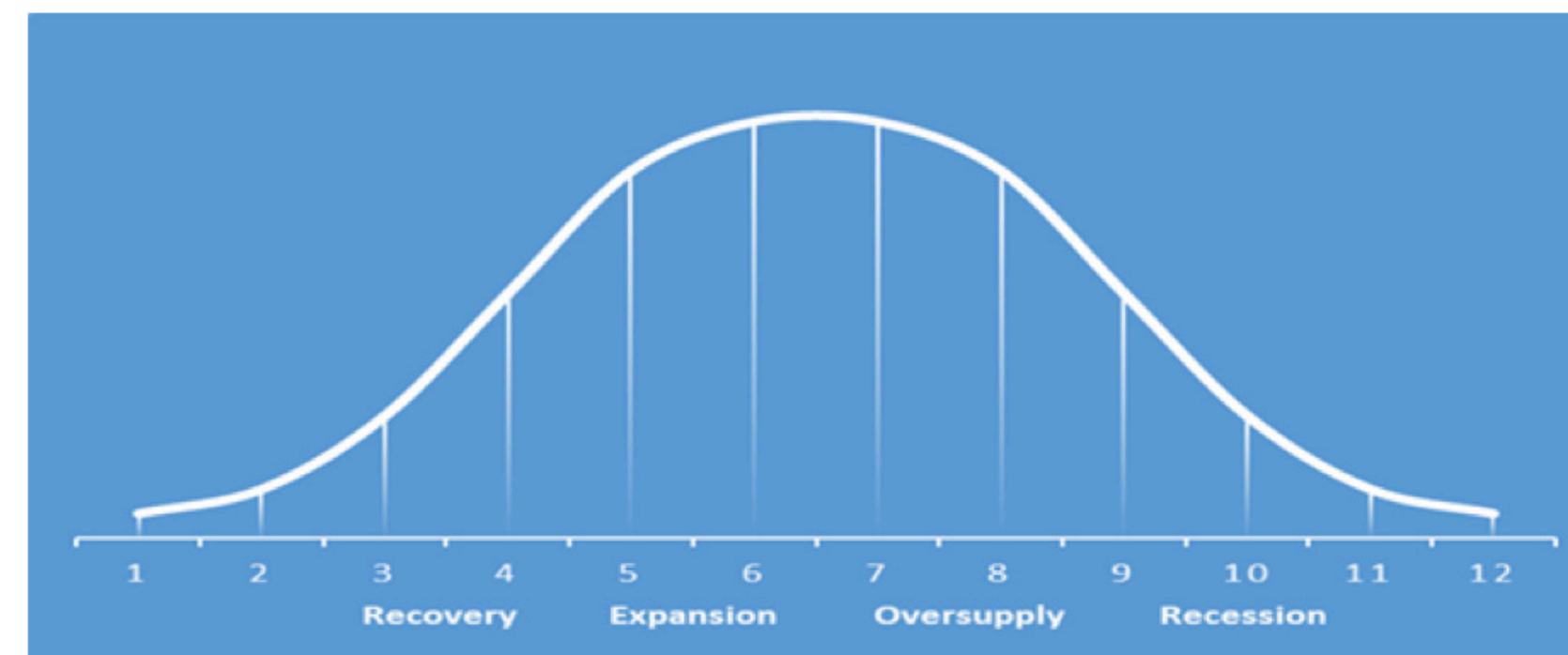
- 1 How has the pandemic affected the valuation process for Frankfurt offices?
- 2 Where currently is Investor appetite: Core, Core Plus, Value Added, Speculative?
- 3 In terms of location - Have certain Frankfurt office sub-markets been affected more than others during the lockdown?
- 4 In lettings - Have lease terms changed as a result of the pandemic?



Forecasts (next 12 months?)

- 1 Will tenants pay more for a high rated 'Deutsche Gesellschaft für Nachhaltiges Bauen' (DGNB)/LEED/BREEAM office building?
- 2 Will Frankfurt office rents remain rise or fall after the lockdown?
- 3 What type of investor will be most active in the Frankfurt office markets?
- 4 How will office design change post pandemic?

Where is the Frankfurt office investment market in its life cycle?



Thank you for attending our webinar.

Here's our upcoming schedule....

The Perfect Storm – major high street thinking for malls and small-town retail

7th July 2021 | 11:00am BST

Digital and Data led innovations in place making and development

14th July 2021 | 11:00am BST



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