

DEAR READER,

The Frankfurt office market has achieved its best result since 2007. The long-awaited large deal by Deutsche Bahn AG as part of the Grand Central project was just one of many highlights in 2016. The most sought-after location was the financial district which confirms the current speculative construction activities observable everywhere on this sub-market. However, the result will only be truly seen in 2018/2019 visible when two additional towers will complement the Frankfurt skyline. Yet things are in motion in other parts of the city as well: Smaller, new office buildings are steadily being built for various companies on the Hanauer Landstrasse, near the new ECB tower. Read about how this and other developments impact the vacancy and rent rates as well as which locations companies are focusing on in addition to the financial district in this edition reView.

We wish you a pleasant read. Please do not hesitate to get in touch with us, should you have any queries or comments.

Your sincerely,
Tanja Zeiske



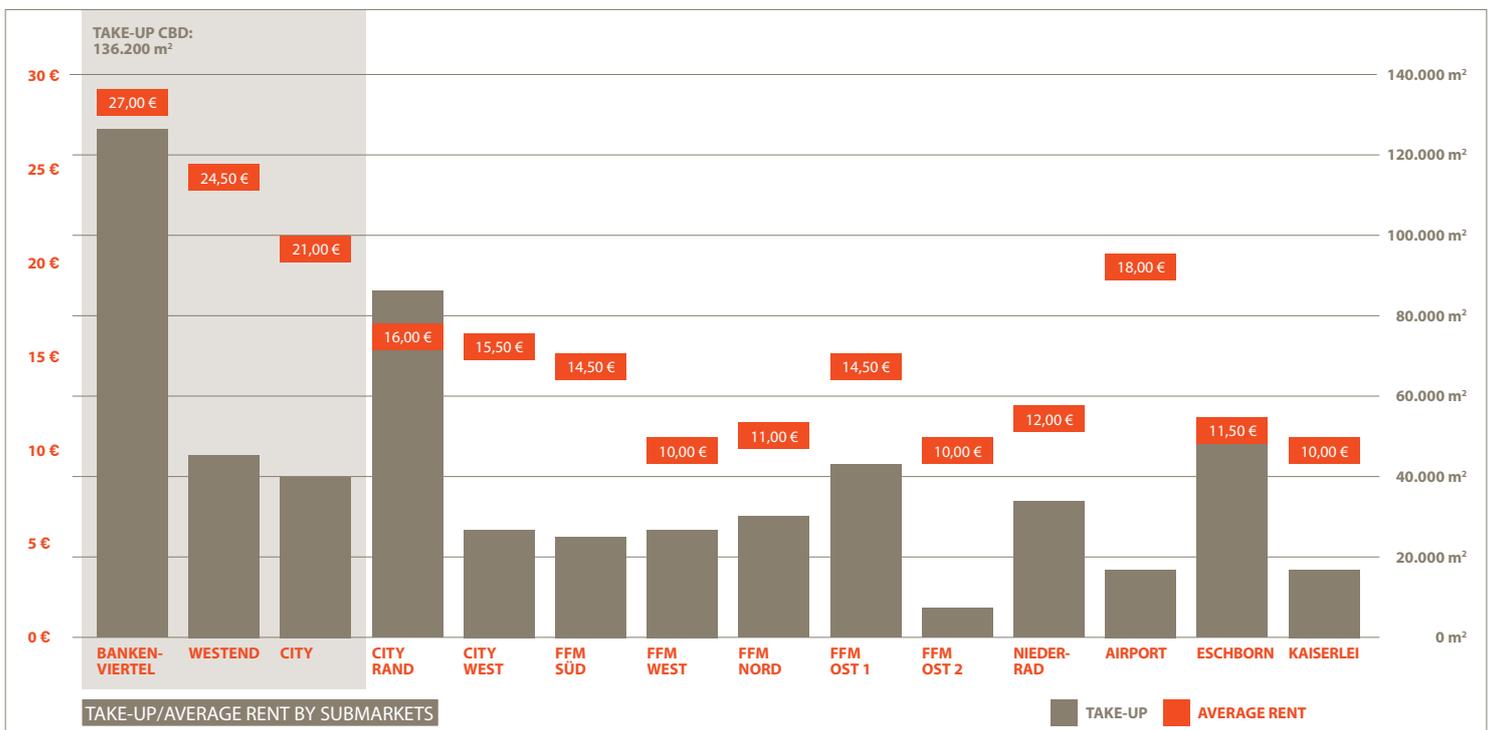
LARGE LEASE DEALS BOOST THE MARKET

Boasting a figure of approx. 560,800 m², almost as much space was rented on the Frankfurt office leasing market (the Frankfurt metropolitan area including Eschborn and Offenbach-Kaiserlei) as pre-crisis in 2007 (approximately 578,000 m²). Compared to last year this is an increase in turnover of 35%. Large deals and a strong medium-sized space segment were also contributing factors. While the number of large lease deals have been in short supply in recent years, there were four leases for over 10,000 m² in 2016. The Deutsche Bahn AG opted for a new building in the space of the former Deutsche Post distribution centre totalling 45,000 m² with the name Grand Central in close proximity to the main station. From 2020, the company will concentrate its staff spread over 18 offices at this location. A number of departments of the European Central Bank will relocate to the Japan Center (again) once it is completely renovated. For this reason, they have leased the entire Tower with approximately 17,800 m². Only marginally smaller was the rented space by the Zurich Gruppe Germany which will occupy about 17,500 m² in Pollux building

Fast reView

↑ TAKE-UP:	ca. 560.800 m ²
↓ VACANCY:	Mio. 1,23 m ²
→ AVERAGE RENT:	18,00 €/m ²
↘ PRIME RENT:	38,50 €/m ²
↻ COMPLETION:	ca. 130.200 m ²

from 2018. Thus, the Pollux building is fully leased. Also contributing to the positive result is the increase in demand in the 5,000 m² to 10,000 m² (+67%) and 2,000 m² to 5,000 m² (+52%) segments. The 1,000 m² to 2,000 m² segment is the only one to record a slight decline (4.3%) compared to 2015. The number of deals once again also increased slightly by 6%.





TAUNUSTURM – TAUNUSTOR 1-3, FRANKFURT, © KAISERKARREE S.Ä R.L | TISHMAN SPEYER

FINANCIAL SERVICES STRONGEST THANKS TO LARGE DEALS, CONSULTANTS IN SECOND PLACE

Three of the four large deals were made by companies from the financial sector, its share in total sales volume is approx. 22%. Frankfurt remains Germany's financial centre. However, both the Zurich Insurance and Commerzbank are scaling down by consolidating multiple locations and therefore freeing up space elsewhere. Consulting firms concluded more than 135 lease agreements and were thus by far the most active representatives of the industry on the market in terms of numbers with a share of space turnover amounting to 15%. The third strongest industry were companies in digital branch (Internet/media/telecommunications) with a space of approx. 74,600 m². They thus occupied 58% more space than in 2015, although their number remained almost the same as the previous year at nearly 100 leases. The space needs per company is growing in this industry. This can be seen in the two leases for more than 9,000 m² each by SAP in the Projekt building and LG Electronics in the current Magnus building, along with the fact that IT-related companies leased six times as much space in the 2,000 m² and 5,000 m² segment in 2016 as in the previous year. The share of transport and tourism companies of total turnover is currently at 12% and thus in fourth place due to the large deal signed by the Deutsche Bahn AG and a doubling of the number of leases compared to 2015.

INCREASE IN TURNOVER NOTICEABLE ALMOST EVERYWHERE

The most in-demand sub-market was the financial district which accounted for 22% of the total turnover for space. More than a quarter of the turnover for space in this area was the result of the two large leases concluded by ECB and the Zurich Gruppe, totalling more than

SURFACE CLASSES	TAKE-UP	NUMBER
01 < 500 m ²	129.900 m ²	548
02 501 - 1.000 m ²	96.100 m ²	137
03 1.001 - 2000 m ²	57.700 m ²	43
04 2.001 - 5.000 m ²	105.700 m ²	31
05 5.001 - 10.000 m ²	80.500 m ²	11
06 > 10.000 m ²	90.900 m ²	4
sum	560.800 m ²	774

35,000 m². The occupancy rate of the Taunusturm lies at more than 90% due to the favourable rental performance in 2015 and 2016, of more than 10,000 m² per year, two years after the building's completion. The second strongest sub-market was the City periphery; this area can also be attributed to the large deal by the Deutsche Bahn AG totalling 45,000 m². The location on the periphery of the city centre could thus be attributed to the large lease deal for the second time in succession (2015: DVAG deal: approx. 32,000 m²) and the second highest space turnover. The central location, excellent transport connections and the significantly more moderate rental rates compared to the CBD were the decisive factor. Nearly all sub-markets benefited from the increased demand, turnover rose particularly sharply in the Frankfurt Süd sub-market (+115%). This was the result of the increase in lease agreements for spaces larger than 2,000 m². While the lack of deals in the 2,000 m² to 10,000 m² segment in the city led to a notable drop in space turnover (-34%).

reView

INTERESTING FACTS ABOUT THE OFFICE MARKET

MARKET REPORT 4TH QUARTER 2016

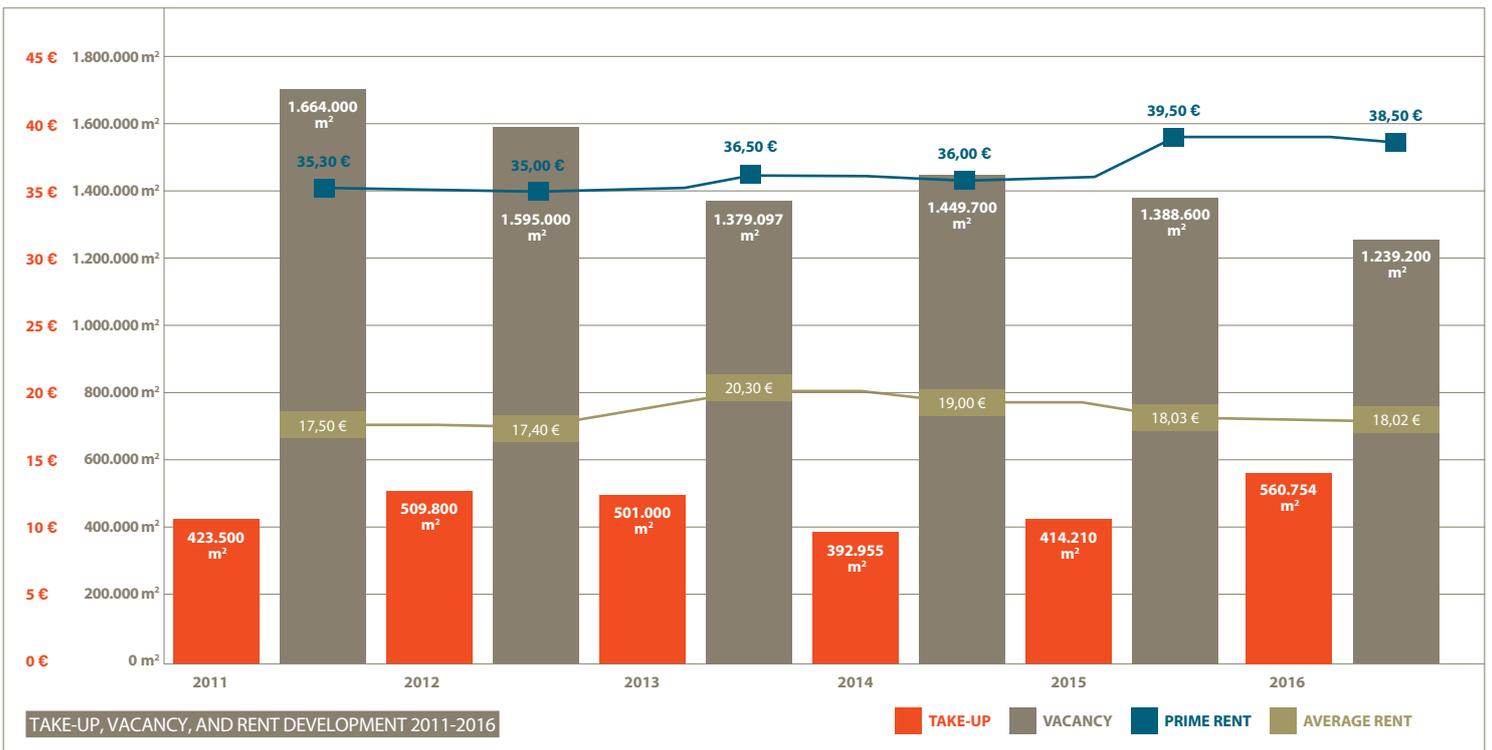


POLLUX – PLATZ DER EINHEIT 2, THE BLACKSTONE GROUP GERMANY GMBH, IMAGE: BLACK OLIVE ADVISORS GMBH

RENT DECLINED SLIGHTLY DUE TO DIVERSIFICATION

The average rent of €18,00/m² is almost exactly at the previous year's rate due to an almost uniform distribution of space turnover on the entire market and a number of large lease deals in existing buildings. The prime rent has fallen slightly by €1.00/m² to €38.50/m². Due to

the low completion rates in the last two years it is hardly surprising that the most expensive lease agreements were not always concluded over top floors nor exclusively over projects. As some high-priced properties will become available on the market in the next few years, a rise in rents can thus be expected.





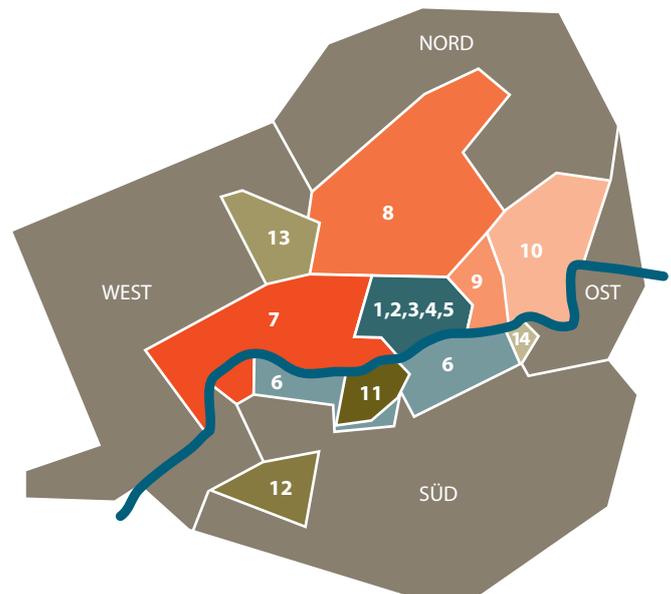
NEW OFFICE BUILDING FOR GKK DIALOG GROUP GMBH, HANAUER LANDSTRASSE 150-170, LANG & CIE. REAL ESTATE AG

SPECULATIVE FINANCIAL DISTRICT, PROJECTED SPACES IN OTHER LOCATIONS

Excluding 2014 (approx. 287,500 m²) completion rates have been clearly below 200,000 m² since 2012. In 2016, approx. 130,200 m² of space became available on the market, of which 64% were already (pre-)rented. Also in 2017, just under 160,000 m² of office space will be completed, of which nearly 70% has been already been let. The volume of completed buildings will not rise until 2018/2019 and the (pre-) occupancy rate will fall. While construction activity has been spread over different sub-markets in recent years, new building projects will focus on the CBD (Central Business District) from 2018. In particular, this concentration will be on the financial district, where more than 50% of the total spaces to be completed in 2019. The completion of the Marien-Turm and OmniTurm in 2019. Whereas recent office buildings

are being constructed in CBD for the most part on a speculative basis, the new buildings in Eschborn, Niederrad and on Hanauer Landstrasse are for the most part 'tailored suits'. This means buildings mostly in the medium-sized space category are being built specifically for a company. At the end of the year, the gkk DialogGroup GmbH secured an office building with 4,200 m² of space through such a project on the Hanauer Landstrasse, where it will relocate to in 2018. Since 2015, a number of companies have settled on a location for their company at the former Raab Karcher grounds decided (2015: Amadeus Fire, medico international e.V. and Fiat/Alfa – 2016: Universum Inkasso). There is still great potential for projects of all sizes at this site as well as in Eschborn and in Niederrad.

FRANKFURT	1-3 CBD*	4 CITY RAND	5 CITY WEST	6 SÜD
take-up	209.200 m ²	89.800 m ²	24.300 m ²	23.000 m ²
(% of total):	37,3 %	16,01 %	4,33 %	4,10 %
vacancy:	308.300 m ²	82.200 m ²	141.800 m ²	36.300 m ²
average rent:	25,40 €/m ²	16,00 €/m ²	14,50 €/m ²	14,50 €/m ²
stock:	3.661.400 m ²	1.344.200 m ²	691.800 m ²	602.100 m ²
FRANKFURT	7 WEST	8 NORD	9 OST 1	10 OST 2
take-up	23.800 m ²	26.300 m ²	41.700 m ²	7.100 m ²
(% of total):	4,24 %	4,69 %	7,44 %	1,27 %
vacancy:	87.600 m ²	130.300 m ²	22.000 m ²	68.700 m ²
average rent:	10,00 €/m ²	11,00 €/m ²	14,50 €/m ²	10,00 €/m ²
stock:	1.389.100 m ²	780.600 m ²	491.700 m ²	278.200 m ²
FRANKFURT	11 NIEDERRAD	12 AIRPORT	13 ESCHBORN	14 KAISERLEI
take-up	33.600 m ²	16.500 m ²	49.700 m ²	15.800 m ²
(% of total):	5,99 %	2,94 %	8,86 %	2,82 %
vacancy:	98.900 m ²	54.000 m ²	143.700 m ²	65.400 m ²
average rent:	11,50 €/m ²	17,00 €/m ²	12,00 €/m ²	10,00 €/m ²
stock:	677.500 m ²	584.700 m ²	972.700 m ²	242.700 m ²
Total	TAKE-UP	AVERAGE RENT	VACANCY	STOCK
	560.800 m ²	17,50 €/m ²	1.239.200 m ²	11.716.700 m ²



VACANCY RATES CONTINUE TO FALL

The low completion rates coupled with strong demand have once again led to a significant drop in vacancies; the vacancy rate continued to fall during the year (-1.3%) and currently stands at 10.6%. In 2016, 83% of the total space in existing buildings was rented, compared to 87% in 2015. Among these spaces, well-equipped, older properties, such as the Pollux building, were just as in demand as newly completed first-rate buildings in recent years such as the TaunusTurm. This and the continuing trend of converting existing buildings have contributed to declining vacancy rates. Also in 2016, approx. 145,500 m² of office space went off the market for new use. More than 100,000 m² will serve as living space in future. The conversion of this space into hotels is also attractive which is experience strong demand in Frankfurt. In the coming years, the trend

in conversion is set to continue, when taking the remodelling of the Niederrad business district into a mixed use location which is still under construction. Virtually all locations benefited from the positive trend in vacancy rates, only the Offenbach Kaiserlei, the adjacent Ost II sub-market and the City West experienced an increase in vacancy rates counter towards the general trend and this, although in the City West and in the Offenbach Kaiserlei significant increases turnover for space were recorded. Parallel to the large leases in these areas, however a disproportionately amount of space became and will become available due to the relocation of large companies, for example the Commerzbank in the City West and in 2017 by the Zurich Versicherung insurance company as well as in the Kaiserlei by AREAVA.

CONCLUSION

The very favourable figures for leases on the Frankfurt office market can be attributed to a return of large deals and high demand in the medium-size segment. The mood is also optimistic for 2017. A result of approx. 480,000 m² on the 5-year average is expected for 2017. As precisely how the Brexit will shape up will be decided only in the course of 2017, it is not expected to have an impact on turnover for space this year. Rents will remain stable in the medium term and rise again slightly due to strong construction activity in the financial district. Large, contiguous prime spaces, particularly in central

locations, will become available on the market from 2018/2019. In many locations outside the CBD, projected spaces are also available to companies with a medium-size space requirement. Against this backdrop, some parts of the city will see an increase in attractiveness due to a mixing of the Frankfurt Ostend and Niederrad. Overall, we expect ongoing strong demand in the medium-size space segment across all locations. In addition, companies with a space requirement of more than 10,000 m² will continue to closely monitor the market. A further reduction of vacancy is expected.

Glossary

Average rent

The average rent is calculated by taking the individual rents agreed in all leases signed over the past 12 months, weighting them by the amount of space rented and computing the mean value. Figures refer to nominal net rents ex services.

Prime rent

The prime rent relates to the top 3% of the market for new lets (not counting owner-occupiers) during the past 12 months and is stated as the average of such rents.

Take-up of space

Take-up of space is the total of all space let plus that sold to, or finished by or for an owner-occupier during the period under review. The operative date for inclusion in the statistic is the date on which the lease or purchase agreement was signed. Lease renewals are not counted as take-up. Areas are stated on the basis of the guide for calculating the rental area in commercial leases (MF/G).

Vacancies

Vacancies include all office space that is available to new tenants within three months. Sub-let space is counted as vacancy

blackolive

blackolive is an owner-managed real estate consultancy firm that focuses on office letting and investment. The managing directors both have more than 26 years of experience and stand for an in-depth understanding of the market.

CONTACT:

black olive advisors gmbh
fon +49 69 9074487-0 || fax +49 69 9074487-10
info@blackolive.de || www.blackolive.de



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