BANKS AT A TURNING POINT

IN WHAT DIRECTION IS THE MOST IMPORTANT SECTOR OF FRANKFURT'S OFFICE LETTING MARKET MOVING

REPORT | 2023

CONTENTS

FOREWORD

If Frankfurt[1] had to be described in three words, it could be the following: banks, commerce and the euro. After all, Frankfurt is Germany's major financial and trading hub with both renown and importance extending beyond the country's borders. The city on the Main is home to the headquarters of the European Central Bank (ECB), the Deutsche Bundesbank, almost all major German banks and many foreign financial institutions. This is where monetary policy decisions are made for the whole of Germany as well as the entire euro area. More than 90 percent of German securities trading takes place on the Frankfurt Stock Exchange. And its central location in the heart of Europe and the international airport also make Hesse's largest city a hub of global economic activity.

But banking has been undergoing profound change for quite some time. Almost all banks have significantly thinned out their branch networks. The global financial market crisis of 2008/2009 led to far-reaching changes in the industry, which are still having a noticeable impact on the Frankfurt office market today.

In addition, increasing digitalisation presents banks with new challenges and forces them to restructure their business processes. Online banking and digital financial products, now long-established, have been causing branches to close throughout Germany for years. New digital currencies and innovative online services from fin-tech companies are increasing competitive pressure within the financial world.

How have these developments affected the office letting market in Frankfurt? What challenges do banks face? And how much will they influence the market in future?

Our study provides answers to the most important questions and topics relating to the bank letting market.[2] We hope you enjoy reading.

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[1]Frankfurt refers here to the office market area of the city of Frankfurt am Main, including Eschborn and Offenbach-Kaiserlei.
[2]Most recent data as at November 30, 2022..

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IN SHORT

IN SHORT

Frankfurt is by far the most important banking location in Germany, with 117 bank headquarters.

The number of bank employees has been broadly stable in recent years, standing at around 56,000 in 2021.

With an average contribution to take-up of 15 percent, banks are the most important single demand driver in the Frankfurt office leasing market, but their share of take-up has declined over the last 20 years.

In 2021 banks occupied 1.5 million sq m or around 13 percent of the total office stock in the Frankfurt market area, which is around 24 percent less than in 2001.

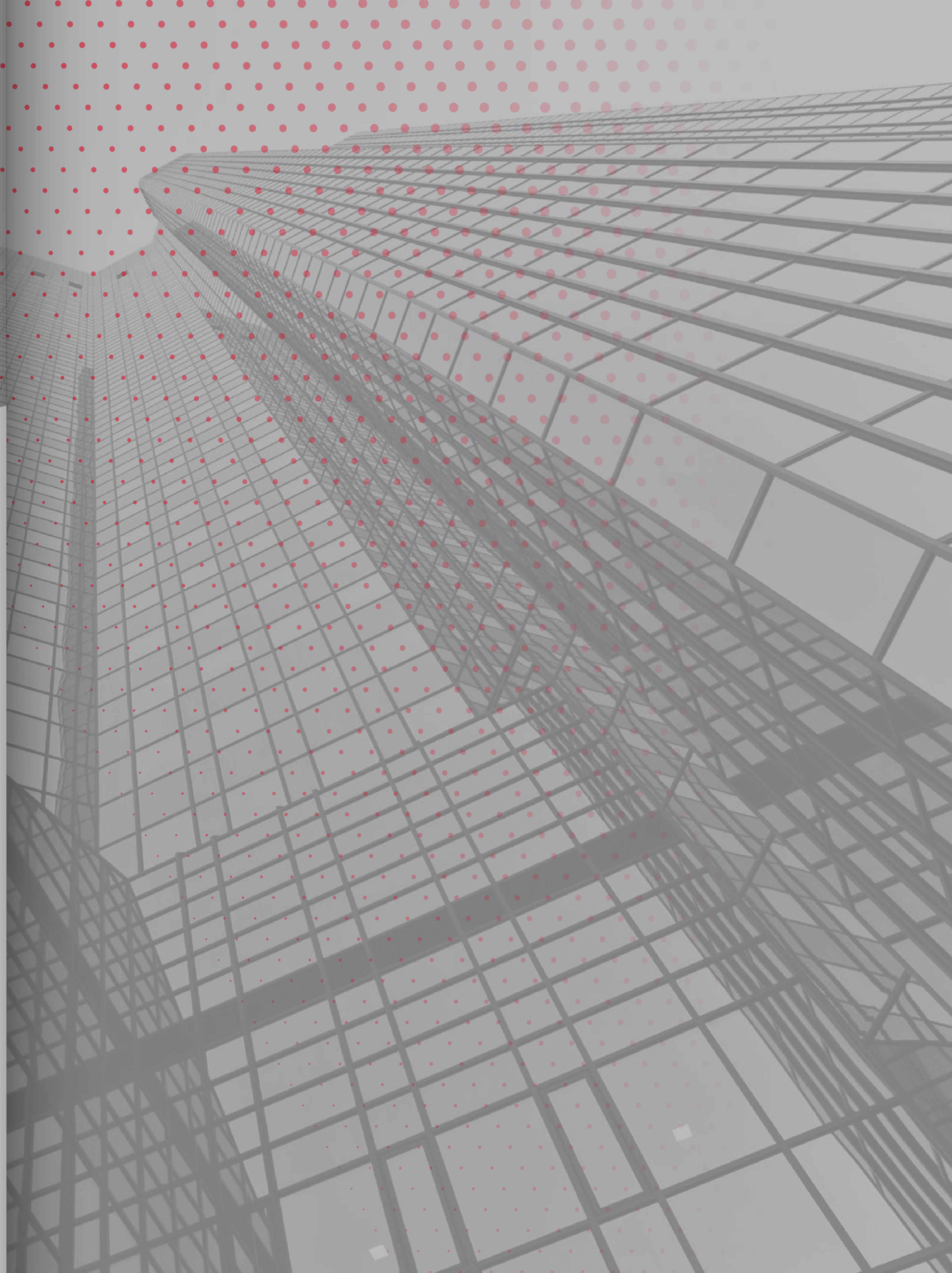
In the next few years, there will be further space reduction. By 2026, bank office stock is expected to fall by a further 21 percent compared to 2021.

Brexit had only a barely measurable effect on demand for office space.

Cryptocurrencies and digital currencies are presenting banks with new challenges.

03

FRANKFURT'S BANKING WORLD



FRANKFURT'S BANKING WORLD

Where are the most important banks in Germany located? By what criteria are they organised? And how many people work in banking?

3.1 Retrospective: Long-standing major financial centre

8th Century

The city founded by the Romans is first mentioned by name with the name "Franconofurd" or "Francorum vadus". The name means "Ford of the Franks" due to this being one of the few points the river Main could be crossed safely. From the early Middle Ages, it became an important trading route.

16th Century

Martin Luther described Frankfurt as the "silver and gold pocket" of the German Reich, as the city had become prosperous due to its numerous trade-fairs. Merchants from a large part of Europe came to do business.

9th September 1585

Frankfurt merchants set uniform exchange rates for the first time – the birth of the Frankfurt Stock Exchange.

19th Century

Major financial institutions such as Rothschild, Bethmann, Oppenheimer and Metzler have their headquarters in Frankfurt.

1st March 1948

The provisional central bank "Bank Deutscher Länder" is founded in Frankfurt.

26th July 1957

The Deutsche Bundesbank is established in Frankfurt and replaces the "Bank Deutscher Länder" from August 1957.

1st June 1998

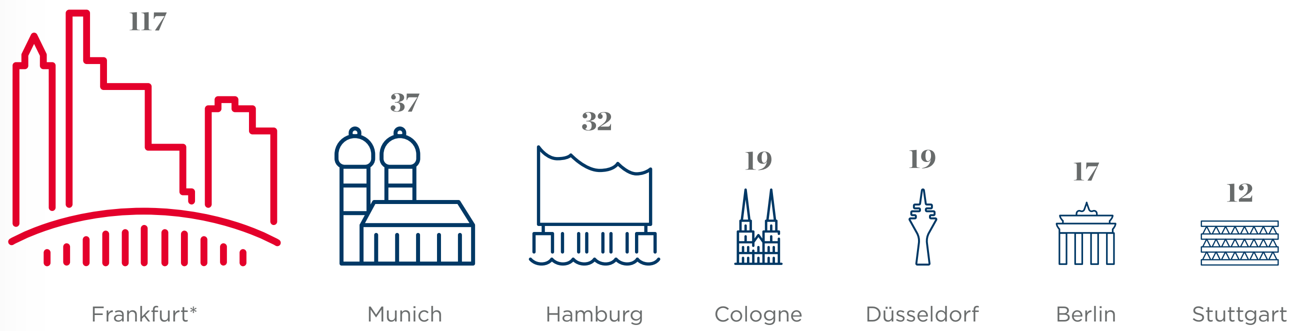
Establishment of the European Central Bank (ECB) based in Frankfurt.

3.2 Unique banking hot-spot

Today, according to the Deutsche Bundesbank (as of July 2022), there are around 1,430 banking institutions in Germany. The majority of these are cooperative banks and public credit institutions. Frankfurt is the location of 117 bank headquarters. This is around 8 percent of all banks registered in the country.

This makes Frankfurt the undisputed top location for financial institutions in Germany. If we exclude the 364 mostly regional savings banks and 769 cooperative banks, Frankfurt accounts for almost 40 percent of all bank locations.

Bank headquarters in the Top-7 markets



Source: Deutsche Bundesbank 2022, Statistics of banks and other financial institutions, as of July 2022
*gif area incl. Eschborn and Offenbach-Kaiserlei

In addition to the ECB and Deutsche Bundesbank, the four largest German banks also have their headquarters in Frankfurt. In terms of total assets, Deutsche Bank AG ranks 1st, followed by DZ Bank AG, KfW (Kreditanstalt für Wiederaufbau) and Commerzbank AG. HypoVereinsbank is currently the fifth-largest German financial institution and, as part of UniCredit Bank AG, has its headquarters in Munich. As one of the five state banks, Helaba (Landesbank Hessen-Thüringen) is also based in Frankfurt. With 57 branches of foreign banks, including UBS, BNP Paribas, Bank of America, J.P. Morgan, Morgan Stanley, Bank of China and Goldman Sachs, Frankfurt is the world's most important German financial centre.

The presence of Deutsche Börse, the Bundesbank and the European Central Bank (ECB) makes Frankfurt a major financial centre, for both Germany and Europe.

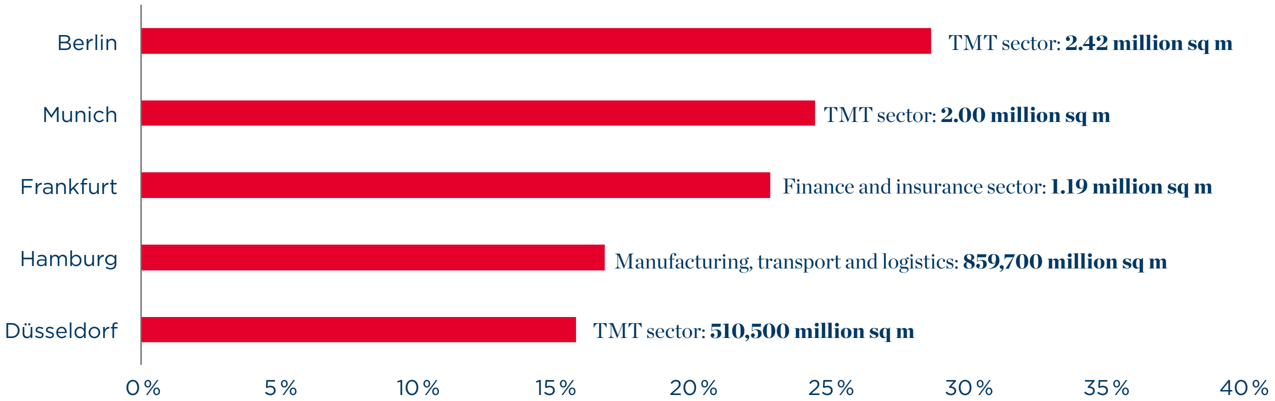
FRANKFURT'S BANKING WORLD

Selected bank head offices in the Top-5 cities

THE financial centre among the Top-5 markets

Finance and insurance has been the clearly dominant sector in Frankfurt over the past ten years, accounting for 23 percent of office take-up. This makes Frankfurt the sole location among the top-5 markets in which this is the leading sector. In Berlin, Düsseldorf and Munich, TMT companies (technology, media and telecommunications) take the lead, with their highest proportion of take-up in Berlin, at almost 30 percent. With its globally significant port, in Hamburg the manufacturing, transport and logistics sector is the most important. Overall, Düsseldorf and Hamburg are the most balanced markets: in each, the most important sector has a market share of 16 percent.

Market shares of the sectors with the highest take-up in each of the Top-5 markets in percent (2012 – Q3 2022)



3.3 Excursus: Three-pillar banking system

The banking system in Germany is based on three main pillars. With the Federal Financial Supervisory Authority (BaFin) and Deutsche Bundesbank jointly assuming banking supervision.

Private commercial banks are organised under private law, some also operate internationally and aim to maximise their profits. These include major banks such as Deutsche Bank, Commerzbank, regional banks and private banks such as Bankhaus Metzler and Baader Bank.

264 banks in Germany in 2022, ***share: 18 percent****

Public-law credit institutions are institutions under public law for the purpose of public welfare, which usually operate regionally. Their owners are usually cities, districts or municipalities. Profits are used as security reserves, distributed to the respective owners or donated to charitable organisations. Examples include the savings banks, KfW and Landesbanken.

398 banks in Germany in 2022, ***share: 28 percent****

Cooperative banks are managed in the legal form of a cooperative. These include the Volksbanks and Raiffeisenbanks as well as the Sparda and PSD banks. These banks distribute their profits to their members.

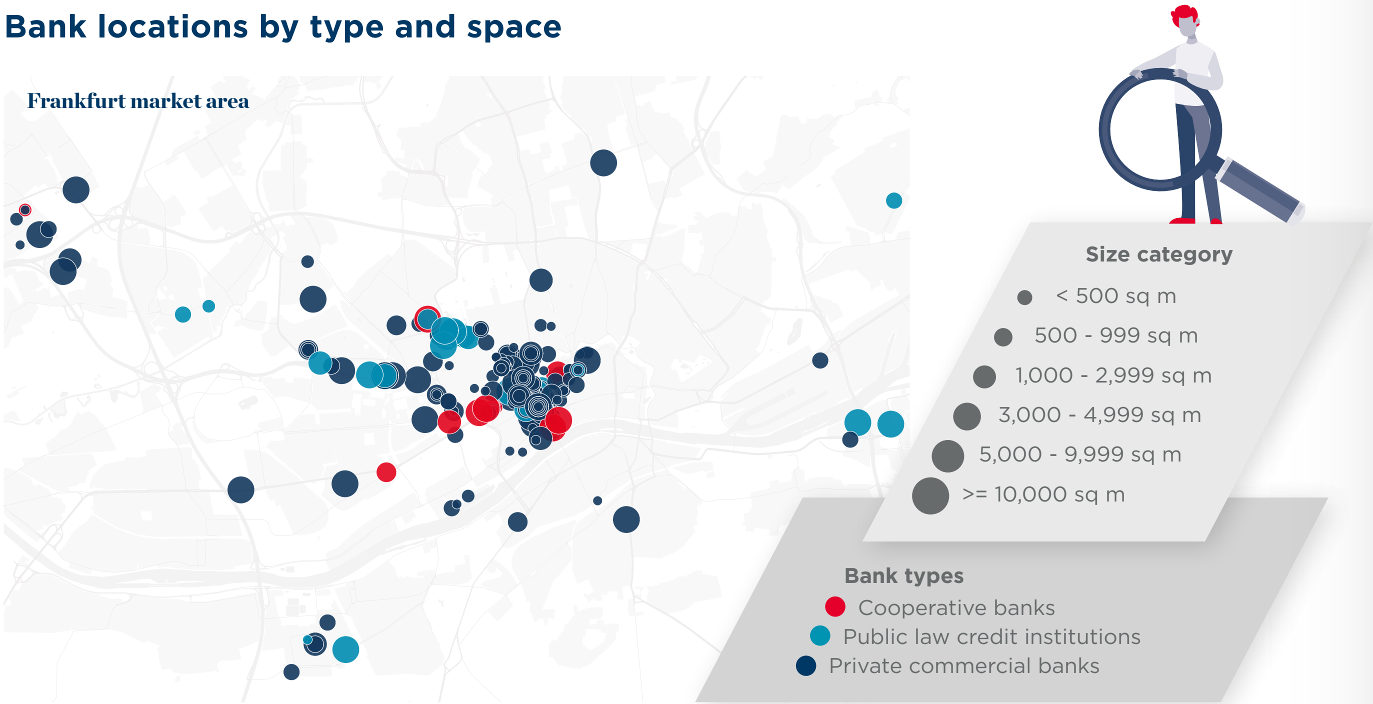
769 banks in Germany in 2022, ***share: 54 percent****

As central banks do not participate directly in the banking system, but are authorities or bodies of the states or the EU, Deutsche Bundesbank and ECB are not analysed here. Financial service providers who do not have a banking license are also not covered by the study.

*Source: Deutsche Bundesbank

FRANKFURT'S BANKING WORLD

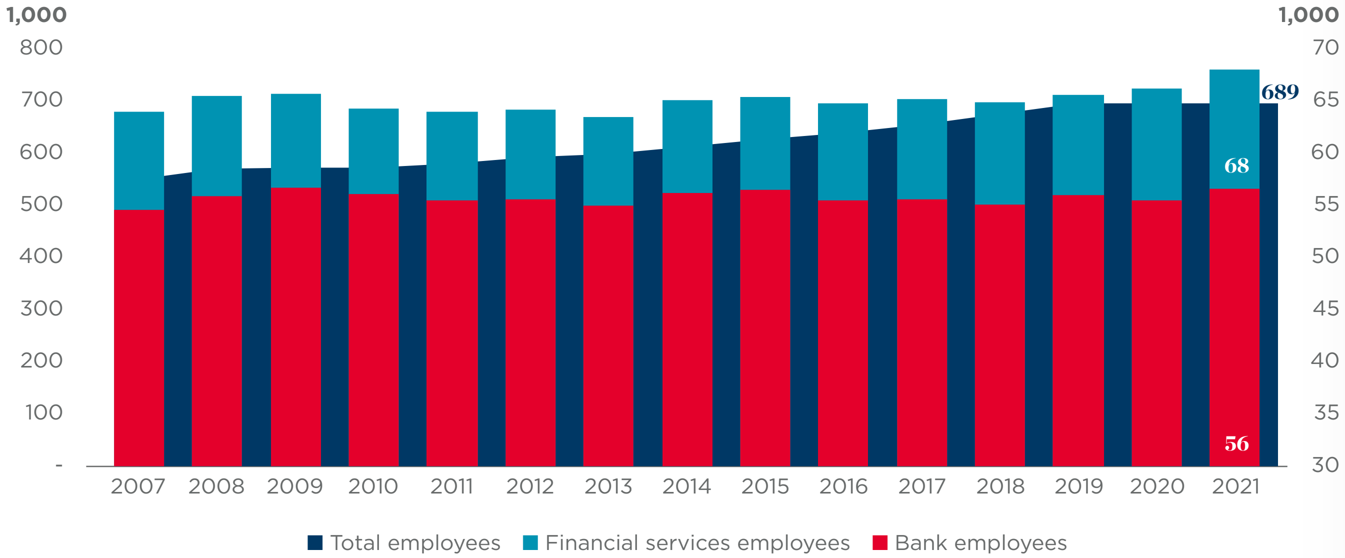
Bank locations by type and space



3.4 Fluctuating bank employment

Every day, investment advisors, fund managers, account managers, credit managers, analysts and other bank employees flock to the bank towers that dominate Frankfurt's famous skyline. Of the almost 689,000 people in employment subject to social insurance contributions in Frankfurt in mid-2021, a full 10 percent were employed in the financial services sector. Around 8 percent worked at credit institutions.

Employment development in the Frankfurt market area



Source: Federal Employment Agency, as at 30/06

Over the past 15 years, the number of employees in the financial services and banking sector has ebbed and flowed. While the number of people employed in Germany has increased continuously since 2007, financial sector employment declined post-2009 as a result of the financial crisis. Only since 2013 has a slight upward trend been discernible. This is inked to the economic upswing in Germany as well as 2013's banking union, under which the ECB took over the supervision of the approximately 120 largest European banks in order to ensure the stability of the banking system and prevent future financial crises.

The development of the number of employees fluctuated, with an upward trend, in the following years reaching a peak in 2021. In that year, 68,000 people worked in the financial services sector in Frankfurt and 56,000 specifically in the banking sector. Compared to 2007, the latter corresponds to an increase of 4 percent. Frankfurt's banking employment has developed slightly positively since 2017, increasing by 2 percent, but remains below the 6 percent national employment growth rate.

On the other hand, banking employment in Germany as a whole has been declining since 2007, mainly due to mergers and regional branch closures. The statistics show that the staff reductions in Frankfurt at major institutions Deutsche Bank and Commerzbank were offset by new hires at other institutions.[1]

In total, in 2021, there were around 604,000 employees subject to social insurance contributions in the German financial sector. **Frankfurt, with 11 percent of these employees, is the front-runner nationwide.**

[1] Helaba (2022): Finanzplatz Frankfurt. Deutsches Bankenzentrum beständig im Wandel.

FRANKFURT’S BANKING WORLD

3.5 Brexit having only a minor effect

The news that the UK would exit the EU was greeted with equal degrees of uncertainty and euphoria in Frankfurt’s office property market. Would Frankfurt now gain in importance as an international financial centre and attract more banks to locate here? The initiative Frankfurt Main Finance expected a relocation of about 10,000 jobs to Frankfurt. A study by Helaba in 2017 expected at least 8,000 jobs to come to Germany spread over several years.[1]

More than six years after the referendum and more than two years after the United Kingdom officially left the European Union, it is clear that Brexit has had little effect on Frankfurt’s development. It is true that some international banks such as J.P. Morgan and Goldman Sachs have expanded and a few institutions have relocated. However, these were only small lettings. The largest new tenant was the Japanese bank Sumitomo Mitsui Banking Corporation (SMBC) in the Main Tower, leasing an area of more than 1,800 sq m in 2017. Overall, however, the impact on the office property market has been modest so far.

London remains by far the most important financial metropolis in Europe. While the UK capital is ranked second behind New York in the current Global Financial Centres Index (GFCI), Frankfurt only made 14th place. In terms of competitiveness, the German city only made it into the top 15 regarding infrastructure and reputation.[2] Within the EU, Frankfurt competes with cities such as Paris, Dublin, Milan, Amsterdam and Madrid.

[1] Helaba (2017): Finanzplatz Frankfurt. In der Pole Position für Brexit-Banker.
[2] Z/Yen (2022): The Global Financial Centres Index 31. https://www.longfinance.net/publications/long-finance-reports/global-financial-centres-index-31/, retrieved July 27, 2022

The optimistic Brexit forecasts for Frankfurt have not yet been fulfilled . However, the ECB is calling for foreign banks to move more management positions from London to the EU. This could boost Frankfurt‘s bank lettings.

Handelsblatt (2022): Zu wenig Führungskräfte der Banken ziehen von London in die EU. https://www.handelsblatt.COM/Finance/Monetary Policy/Banken-Supervision-Zu-wenig-Fuehrungskraefte-der-Banken-ziehen-von-London-in-die- eu/28355734.html, retrieved August 18, 2022.

Brexit-induced lettings* to banks in Frankfurt (since 2016)

Occupier	Property	Area in sq m	Quarter	Type
Goldman Sachs	MesseTurm	12,700	Q4 2017	Relocation & Expansion by 3,000 sq m
J.P. Morgan	TaunusTurm	10,400	Q3 2017	Expansion, 2,400 sq m
Citibank	Taurus	10,100	Q2 2022	Relocation & Expansion by 1,200 sq m
Morgan Stanley	OmniTurm	10,000	Q3 2017	Relocation & Expansion by 4,250 sq m
Bank of America	Marienturm	4,000	Q4 2019	Expansion, 1,100 sq m
Nomura	Rathenauplatz	2,700	Q4 2017	Expansion, 1,500 sq m
Pictet & Cie	MainTor Panorama	1,900	Q2 2022	Expansion, 1,000 sq m
SMBC	Main Tower	1,800	Q3 2017	Relocation
Wells Fargo	MesseTurm	900	Q1 2020	Expansion, 500 sq m
China Merchants Bank	Marienturm	700	Q4 2019	Relocation
Silicon Valley Bank	Solo West	500	Q3 2017	Relocation
Raymond James	TaunusTurm	500	Q2 2017	Relocation
CICC	Main Tower	400	Q2 2019	Relocation
Bank of Taiwan	Rhein-Main-Center	130	Q2 2018	Relocation

Source: Cushman & Wakefield Research.
*Relocation/expansion has been proven to be linked to Brexit

FRANKFURT’S BANKING WORLD

3.6 In third place in Europe

Overall, London and Paris are by far the most important locations for banks in Europe in terms of office space. Over the last five years, take-up by banks in central London has amounted to around 800,000 sq m.

In Paris (city), bank take-up was just under 400,000 sq m, Frankfurt followed in third place with 294,000 sq m. Dublin and Amsterdam are of lesser importance with with banking take-up of around 89,000 sq m and 87,000 sq m respectively.

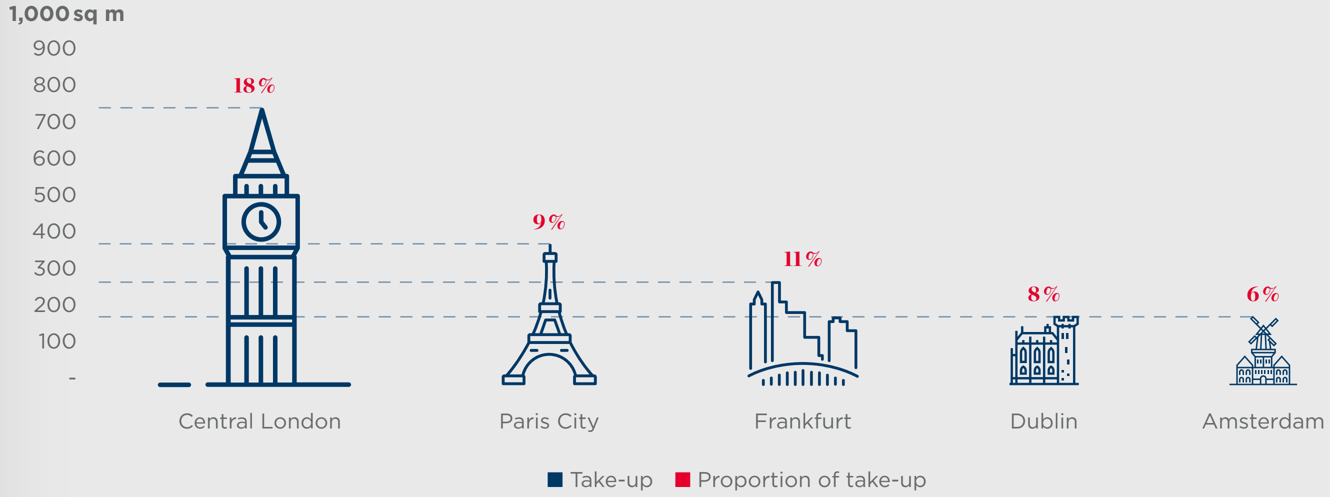
London’s office market is the most strongly influenced by the banking sector, which accounted for 18 percent of take-up, in Frankfurt it was 11 percent.

London and Paris have seen the largest lettings to banks in recent years, with the largest deal taking place in Paris. Natixis leased 90,000 sq m of space here in 2017. In London, Deutsche Bank secured around 43,500 sq m in a development project - also in 2017.

Without exception, the largest deals took place prior to the Covid-19 pandemic. Similarly to Frankfurt, demand in the other markets fell sharply in 2020 and has been recovering since 2021. However, large bank leasings of more than 10,000 sq m have also been rare in the other financial centres since 2020, with a similar trend towards leasing smaller spaces, as in Frankfurt, apparent.

The HSBC leasing in Paris was Brexit-related, involving some 15,000 sq m for the new headquarters of a European arm.

Take-up and proportion of take-up in the European financial centres 2017–2021



Large leasings by banks in European financial centres 2017–2021

Occupier	Property	Area in sq m	Quarter
London			
Deutsche Bank	21 Moorfields	43,500	Q3 2017
European Bank for Reconstruction and Development	1–5 Bank Street	33,300	Q2 2019
SMBC	100 Liverpool Street	15,000	Q1 2018
Paris			
Natixis	Duo Towers	90,000	Q1 2017
HSBC	36–38 Avenue Kleber	15,400	Q4 2019
Banque Populaire Rives de Paris	80 Boulevard Auguste Blanqui	15,300	Q3 2019
Amsterdam			
ING	Backyard	12,150	Q4 2017
KAS Bank	De Entree 500	6,000	Q2 2017
ABN Amro	Centerpoint	5,000	Q4 2019
Dublin			
J.P. Morgan	200 Capital Dock	12,100	Q2 2017
Allied Irish Bank	Block H, Central Park	12,000	Q2 2017
Allied Irish Bank	10 Molesworth Street	10,700	Q4 2017

04

BANKS AND THE OFFICE MARKET

BANKS AND THE OFFICE MARKET

4.1 Retrospective: Financial crises that shook the world

1929/1931: Black Friday

At the end of October 1929, prices on the New York Stock Exchange collapsed. This was followed by the most serious global economic crisis of the past century. From July 10, 1931, the Reichsbank stopped redeeming cheques from the Darmstädter und Nationalbank (Danat-Bank), which subsequently had to suspend all payments and was insolvent. A Germany-wide banking crisis was triggered.

1987: Black Monday

On October 19, 1987, there was a stock market crash in New York and many other countries which caused confusion worldwide. Contrary to the assumption that computers would make everything safer, computerised trading algorithms actually accelerated the crash.

1997: Asian Crisis

As a result of the currency devaluations in the tiger economies, the Asian stock markets collapsed. On October 27, 1997, there was an enormous slide on the US stock exchange, which spread like wildfire around the globe including in Frankfurt.

2000–2004: Dot-com Bubble

Many investors bought into in the shares of booming Internet technology companies, whose prices soared as a result. However, it quickly became apparent that investors' expectations could not be fulfilled. As early as March 2000, the dot-com bubble began to burst. Many investors lost their money and confidence in the stock market.

After the September 11 attacks the downward slide on the stock markets intensified further. In the following years, a large volume of speculatively completed bank office space remained unused in Frankfurt.

2007–2009: Finance, Banking and Economic Crisis

A massive price collapse on the US real estate market put many banks and mortgage lenders into serious difficulties. Within a few weeks, the crisis reached Europe. Banks stopped borrowing money from each other and global trade plummeted. State aid and security guarantees were employed by the German government, to rescue many of the country's banks.

2010–2014: Euro Crisis

The financial crisis resulted in several European countries incurring very high levels of sovereign debt. Southern European countries such as Greece, Italy, Spain and Portugal were particularly affected. The ECB and the IMF set up rescue packages to prevent these states from defaulting on their debts.

Since 2020: Covid Pandemic

The uncontrolled spread of the Covid-19 virus terrified the world and sent stock prices plummeting. Borders were closed, manufacturing stopped, events cancelled and retail stores closed. Wherever possible, work was done from home. Since then, new flexible workplace models have become increasingly well-established at many banks.

Since 2022: Ukraine-War/ Energy Crisis

Now the world is facing new challenges. In February 2022, the Ukraine conflict turned into a war. While Ukrainian refugees are pouring into neighbouring countries, Russia is reducing its gas supplies and impeding grain exports from Ukraine. The war is thus having a negative impact on the entire EU economy and driving up inflation, including gas and electricity prices. Interest rate hikes by the ECB and rising construction costs are dampening the real estate market.

BANKS AND THE OFFICE MARKET

4.2 Characterised by ups and downs

How has the market developed in recent years? What is important to banks in their location choices? And which locations are experiencing the highest take-up?

Frankfurt market area key figures (2001–2021)

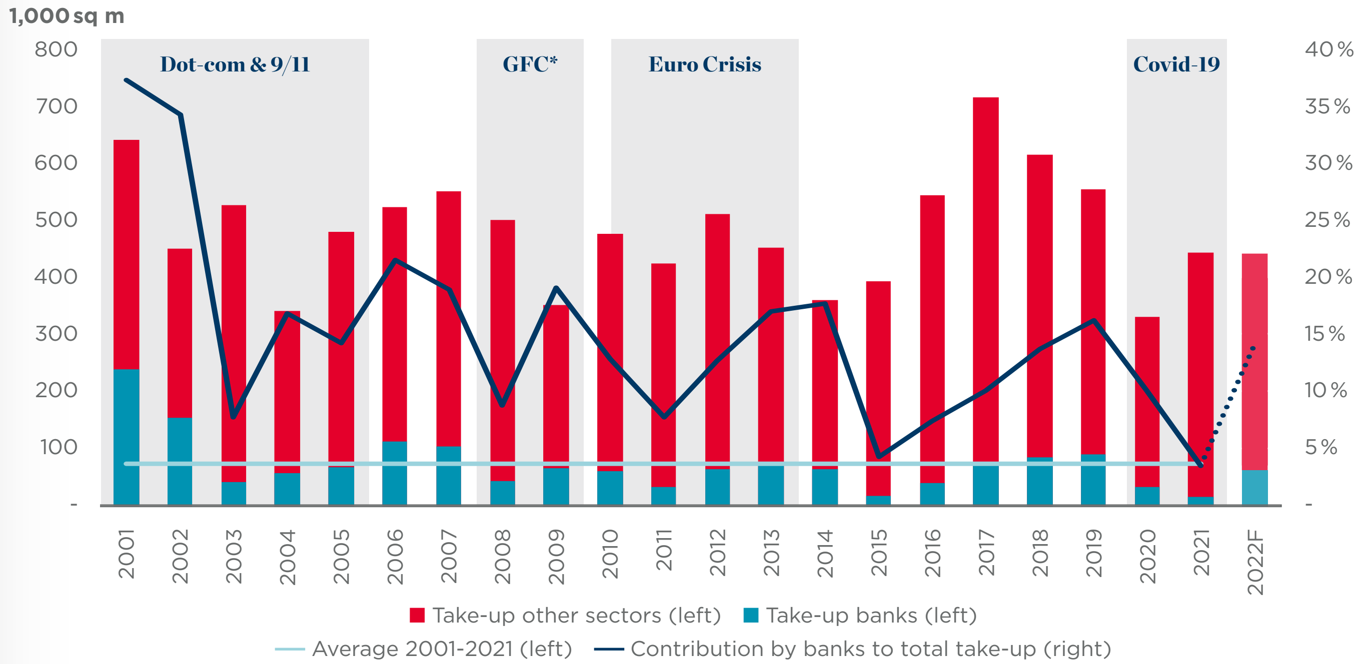
Average annual take-up, banks:	**73,000 sq m**
Average proportion of total take-up:	**15 percent**
Highest contribution of banks to total:	**37 percent**
Lowest contribution of banks to total:	**8 percent**
Average rent across market area (2021):	**€ 23.20/sq m/month**
Average rent, banks (2021):	**€ 33.80/sq m/month**

Market reacts sensitively to financial crises

In the mid-1990s, a new era of digitalisation dawned with the advent of the Internet. The worldwide web became increasingly important, and many investors were increasingly drawn to internet technology companies. The prices of dot-com companies soared. Due to the increasing demand for financial products, banks also experienced growth. For example, many credit institutions rented space speculatively and surplus to their requirements. With 37 percent of office take-up, this sector reached a record high in 2001. When the dot-com bubble burst, many investors lost their money and at the same time lost confidence in the stock market. Banking business declined, and with it the need for new office space. In 2003, financial institutions accounted for only 8 percent of take-up.

A similarly low level of letting activity was also observed in the subsequent economic crises. According to the study, the share of take-up during the financial crisis was only 9 percent in 2008 and just 8 percent in the early days of the euro crisis in 2011. In 2015 there were many lease renewals and few new leases. The market share of banks has fallen to 4 percent this year, having only ever been lower during the Covid pandemic, at 3.5 percent. These developments underline the fact that that banks' demand for office space is extremely volatile.

Office take-up banks and other sectors 2001–2022



*Global Financial Crisis

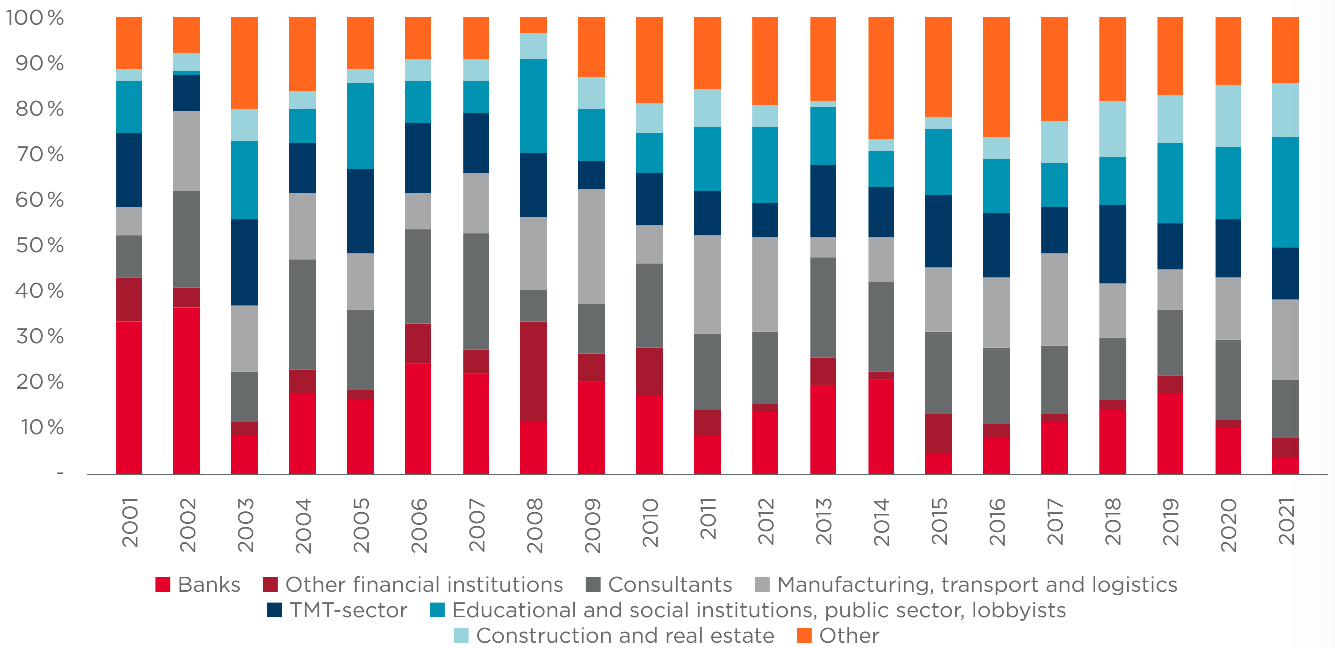
BANKS AND THE OFFICE MARKET

Banking sector contribution ebbing

Other sectors have been much more stable over the past ten years. Consulting firms' take-up, for example, was almost always higher than that of banks, with the exceptions of the years 2014, 2018 and 2019. Public administration has also made large contributions above the 15 percent mark in the last three years.

Looking at the period 2001 to 2021, banks with an average take-up of around 73,000 sq m per year and a take-up contribution of 15 percent constituted the most important sector for Frankfurt's office letting market, closely followed by consultants with 14 percent. The entire financial sector, including financial service providers and central banks, accounted for 23 percent of take-up.

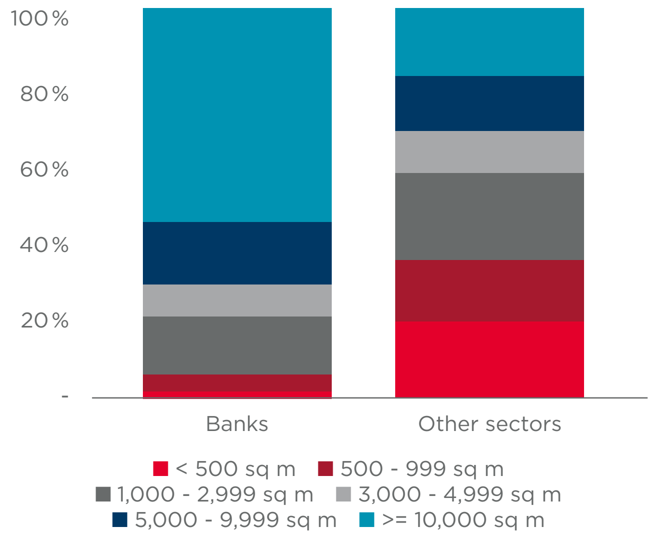
Proportion of take-up by sector



4.3 Large deals set the tone

However, banks have sought significantly more large areas than other sectors. In total, there have been 16 bank lettings each in excess of 10,000 sq m in the past ten years totalling some 329,200 sq m. Financial institutions accounted for 30 percent of take-up in this size category in the Frankfurt market area. The largest was the letting of over 46,000 sq m in the Niederrad submarket to DekaBank in 2019. The banks' overall contribution to take-up that year was correspondingly high at 16 percent. Their contribution to lettings of less than 500 sq m was conversely comparatively low.

Office take-up by size category (2012–Q3 2022)



Top-10-lettings bank sector 2017–Q3 2022

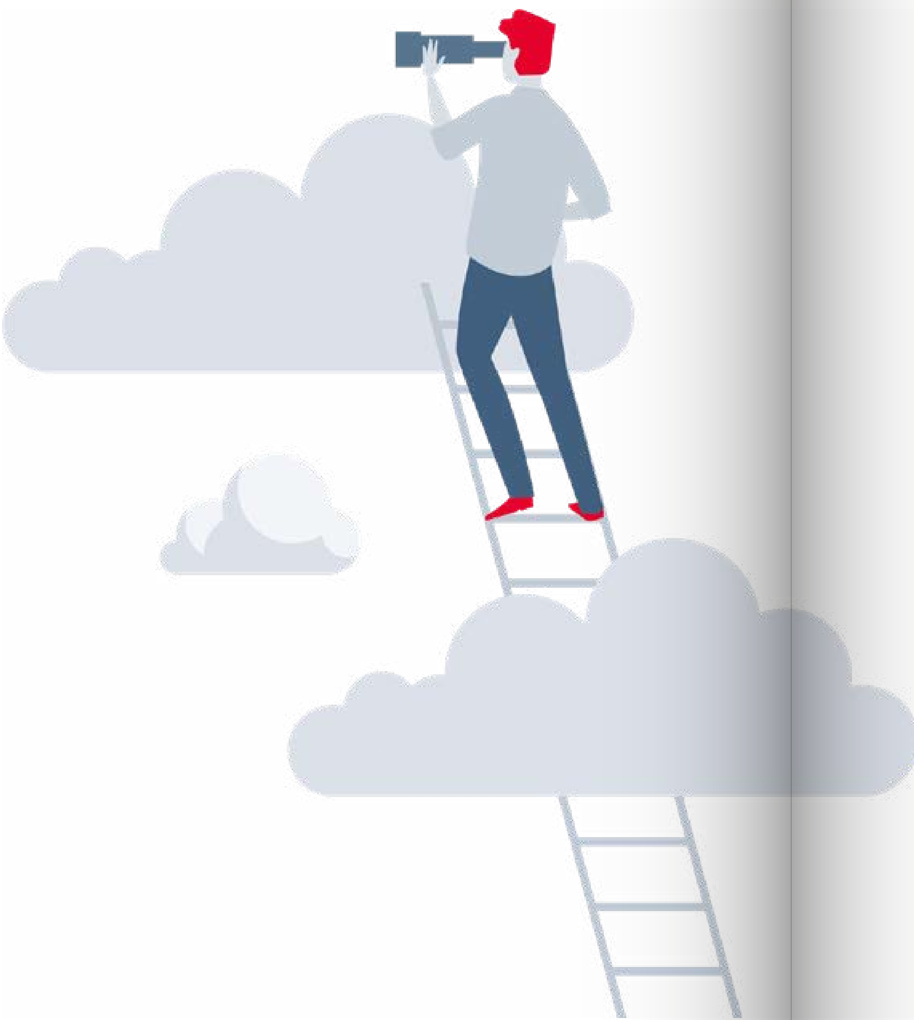
Quarter	Property	Submarket	Tenant	Area (sq m)
Q2 2019	Deka-Neubau Lyoner Strasse 13	Niederrad	DekaBank	46,200
Q3 2018	Cielo Theodor-Heuss-Allee 100-104	City-West	Commerzbank	36,100
Q3 2017	Mainpark Kaiserleistrasse 29-35	Offenbach-Kaiserlei	Helaba	27,500
Q3 2022	Gallusanlage 8	Banking District	ODDO BHF	18,600
Q3 2020	FOUR T1 Große Gallusstrasse 10-14	Banking District	DekaBank	16,000
Q4 2019	Senckenberg Turm Senckenberganlage 19	Frankfurt West	BNP Paribas	14,900
Q4 2019	Goldenes Haus Theodor-Heuss-Allee 80	City-West	Landwirtschaftliche Rentenbank	12,300
Q4 2018	Darmstädter Landstrasse 108	Frankfurt South	Bankhaus Metzler	12,100
Q2 2022	Taurus Börsenplatz 7-11	City	Citibank	10,100
Q3 2017	OMNITURM Große Gallusstrasse 16-18	Banking District	Morgan Stanley	10,000
Q4 2017	Marienturm Taunusanlage 9-10	Banking District	Goldman Sachs	9,700
Q1 2018	Marienforum Mainzer Landstrasse 1	Banking District	Bethmann Bank/ ABN Amro	8,000

BANKS AND THE OFFICE MARKET

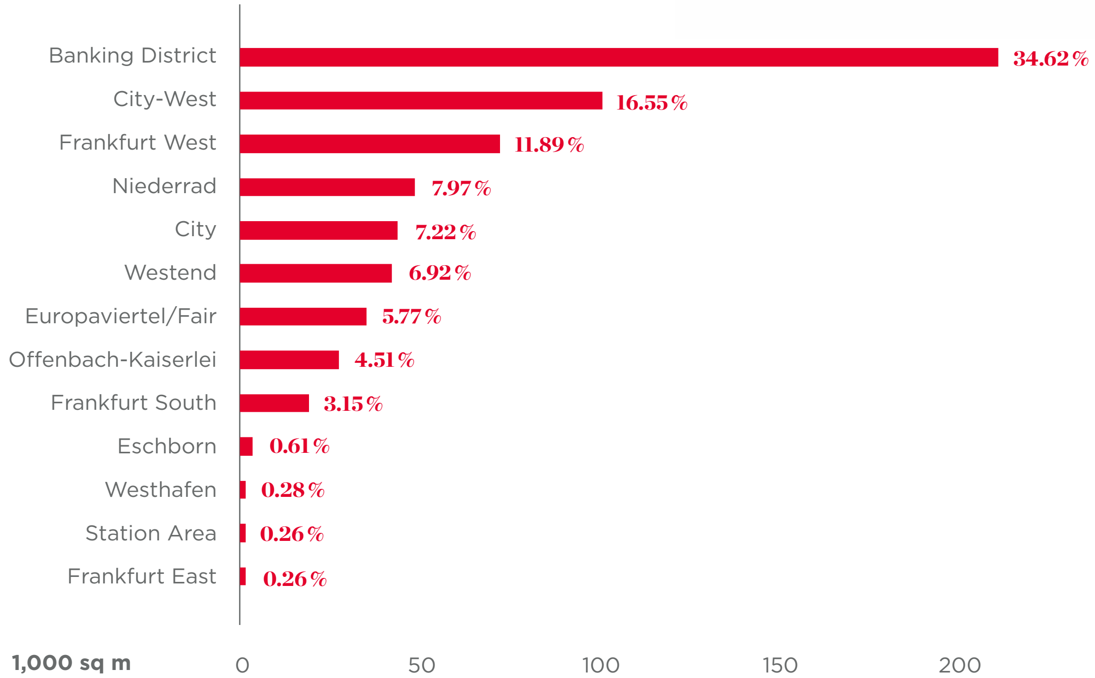
4.4 Focussed on two submarkets

A closer look at the take-up figures shows that two submarkets occupy a stronger position in office letting. In the Banking District alone, 211,000 sq m of banking office space take-up took place in the last ten years. This corresponds to 35 percent of the sector's total take-up. There are 77 banking locations (as of 2021) in the district, with its iconic bank towers.

In terms of total take-up[1], however, banks had their highest share of take-up in the City-West submarket. In the last ten years, a market share of 28 percent has been achieved here. This was due to major leases of Commerzbank, Deutsche Bank, ING and Landwirtschaftliche Rentenbank in this submarket. In the Banking District, on the other hand, 23 percent of total take-up was generated by banks.



Banks' office take-up by submarket
(2012–Q3 2022)



[1] of the respective submarket

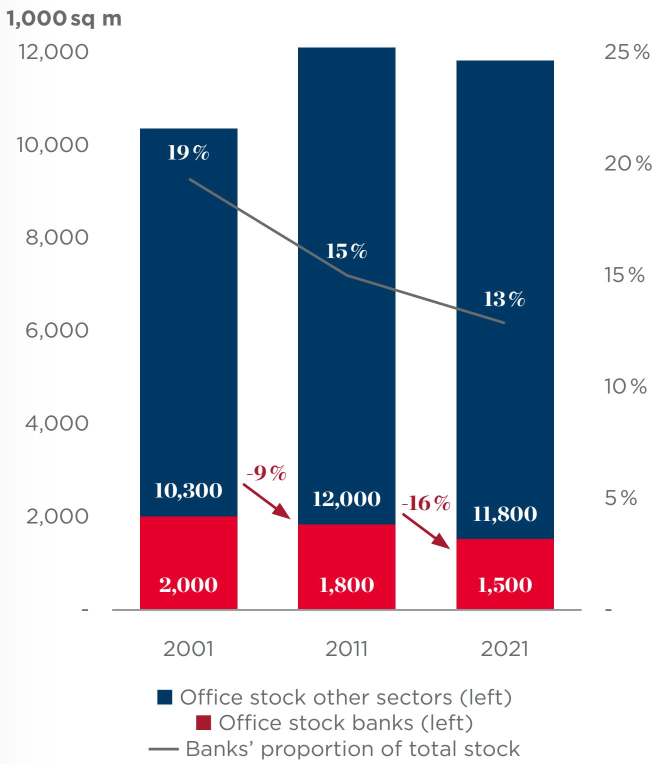
4.5 Falling stock

The importance of banks for the office property market is also reflected in vacancy rates and construction activity. In particular, the dot-com boom and the associated high level of leasing activity by financial institutions ensured a high level of construction activity in the Frankfurt office property market. Between 2002 and 2004 alone – the years immediately following the boom – more than 1.4 million sq m of office space was completed. As a result of these largely being speculative completions, the vacancy rate rose from 2.4 percent in 2001 to 17.1 percent at the end of 2004.

At the beginning of the millennium, banks occupied almost 2 million sq m of office space at around 215 locations in Frankfurt. With a total office area of 10.3 million sq m, this corresponds to 19 percent of total stock. Just ten years later – after the dot-com and financial crisis – this fell by 9 percent to just 1.8 million sq m. The reduction in bank-occupied area continued by a further 16 percent in subsequent years to only 1.5 million sq m or 13 percent by 2021.

In total, banks have withdrawn from around 500,000 sq m of office space in the Frankfurt market area over the past 20 years. The number of locations has remained virtually unchanged. This means that the average size of a banking location has fallen by almost 25 percent over the last 20 years; to just under 7,000 sq m by the end of 2021.

Office stock banks and other sectors
2001, 2011 and 2021



Whereas in 2011, 32 sq m of space was allotted to each bank employee, by 2021 this had fallen to 26 sq m. This figure is likely to be reduced further in the coming years, as most banks are planning to concentrate their space further.

BANKS AND THE OFFICE MARKET

Bank mergers leading to space reduction

Based on developments in the individual banks, it is clear that Commerzbank and Deutsche Bank in particular have significantly reduced their space in recent years. Nevertheless, in 2021 they still accounted for 37 percent of the total banking office space in Frankfurt. This illustrates the importance of these two major institutions for the market, but also reveals a certain concentration of risk.

As the merger of Commerzbank and Dresdner Bank in 2009 showed, mergers can have a major impact on the Frankfurt office property market. By merging and freeing up locations, their occupied office area was considerably reduced. Even though a merger of Commerzbank and Deutsche Bank failed in 2019, a renewed attempt cannot be ruled out in order to remain competitive globally.[1]

But not all banks have reduced space in the last two decades. KfW expanded and, in addition to its headquarters on Bockenheimer Landstrasse, has also expanded strongly in City-West. The same applies to ING, which has grown strongly since the turn of the millennium and currently occupies office premises totalling almost 40,000 sq m in Frankfurt.

[1] FAZ (2022): Deutsche Banken sind auf Dauer zu klein. Internet: https://www.faz.net/aktuell/finanzen/deutsche-bank-und-commerzbank-sind-auf-dauer-zu-klein-17813562.html, retrieved August 25, 2022

Top 5 banks by office space, status 2021

Bank	Area in sq m (2021)	Change 2001/2021
Commerzbank	319,000	-46 %[2]
Deutsche Bank	246,000	-31 %
DZ Bank	122,000	-2 %
KfW	122,000	+112 %
DekaBank	77,000	-16 %

[2] 2009 Merger with Dresdner Bank, area let to Dresdner Bank in 2001 included

Banks and remote working - how much office space is still required?

With the onset of the Covid-19 crisis, the banking industry, which had previously been rather conservative, opted for flexible working. For example, comprehensive remote working regulations were introduced in the corporate headquarters and administrative functions, which at times led to very low space occupancy in the Frankfurt banks' office space.

In the meantime, almost all large occupiers - including the banks - have come up with innovative workplace strategies. Remote and hybrid working will continue to play a central role, albeit in different forms. The banks' working models range from obligatory full-time attendance to one hundred percent remote working. At most banks, however, the range is between 40 and 60 percent compulsory attendance.

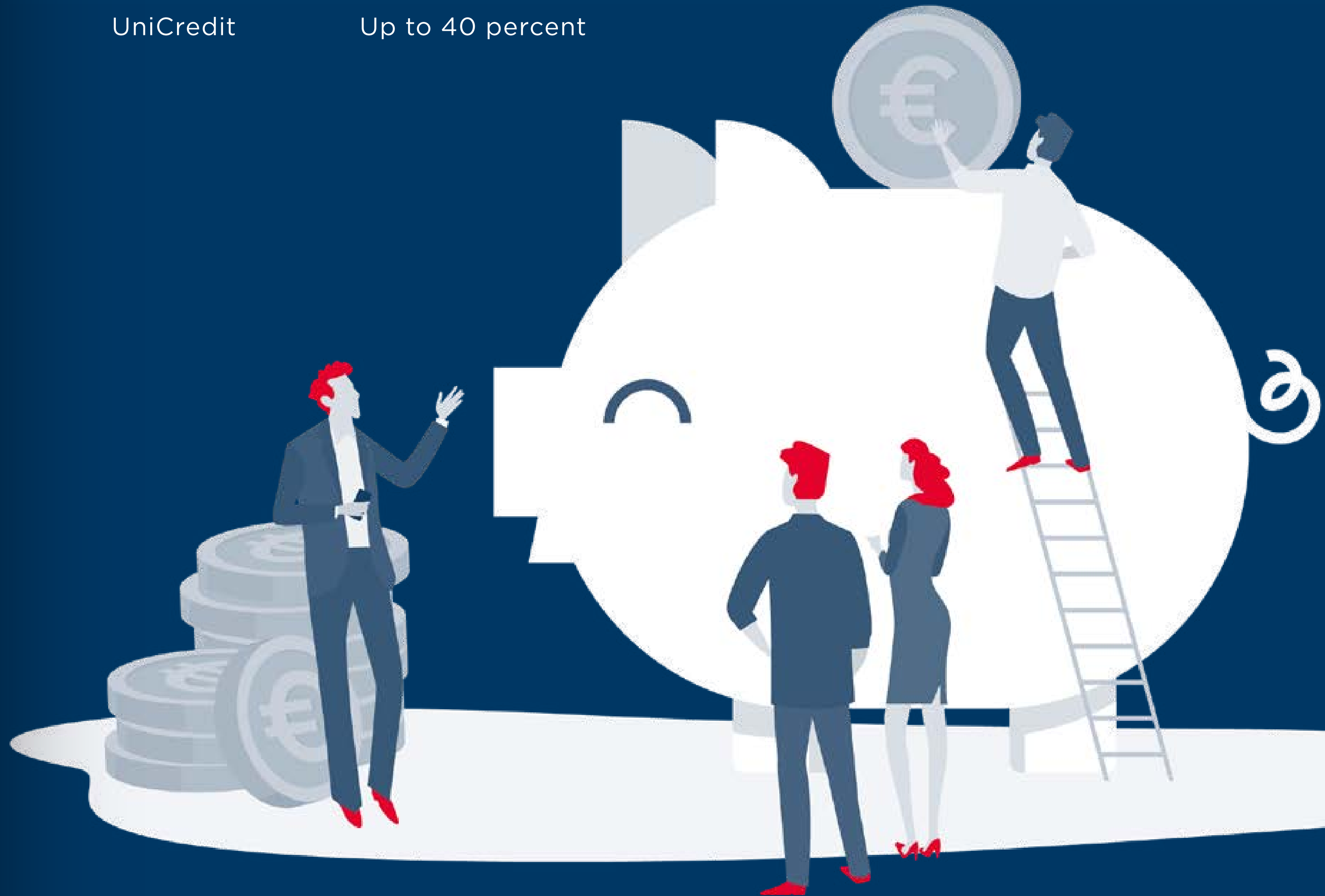
Sources: Finanz-Szene (2022): Berenberg verweigert seiner Belegschaft das Home-Office. Internet: https://finanz-szene.de/banking/berenberg-verweigert-seiner-belegschaft-das-home-office/, retrieved November 25, 2022; Welt (2022): Beschäftigte in Commerzbank können mehr Homeoffice machen. Internet: https://www.welt.de/regionales/hessen/article240255525/Beschaeftigte-in-Commerzbank-koennen-mehr-Homeoffice-machen.html, retrieved November 25, 2022; Tillar, J. (2022): Die Pflicht geht, der Wunsch bleibt. Internet: https://www.capital.de/karriere/dax-konzerne--das-sind-die-homeoffice-regelungen-nach-corona-31913348.html, retrieved November 25, 2022; Own Research

Current working models of selected banks

Company	Proportion of remote work
Berenberg	Presence obligatory
Bethmann Bank/ ABN Amro	Up to 60 percent
Commerzbank	50 to 70 percent (in the company headquarters)
DekaBank	Up to 40 percent
Deutsche Bank	Up to 60 percent
DZ Bank	Flexible
Helaba	Up to 50 percent
ING	Flexible
KfW	Up to 40 percent
Metzler	20 to 50 percent (in exceptional cases)
UniCredit	Up to 40 percent

The new working models imply a change in the utilisation and use of the office space. On the one hand, the conversion of existing areas is being reviewed in order to create more discussion and common spaces for collaborative work. On the other hand, desk-sharing models can also be used to consolidate or downsize office space.

Deutsche Bank already announced the establishment of "new working models" at the beginning of 2022 and aims to reduce its office space in Frankfurt and Eschborn by around 40 percent. Commerzbank is also giving up office space on a larger scale. DekaBank relies on a desk-sharing model in its new branch in Niederrad, so that there are only 80 places for every 100 employees. And DZ Bank is gradually equipping its office space in Westend Tower with a new workplace model without fixed desk allocation.



BANKS AND THE OFFICE MARKET

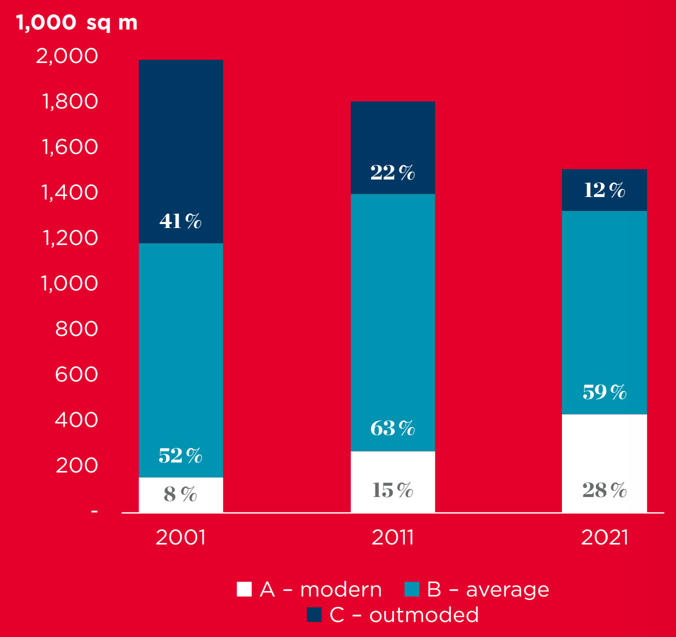
4.6 High quality is sought-after

When selecting offices, banks attach great importance to high quality. Especially for their headquarters, they prefer new buildings and development projects. Thus, the proportion of prime space rose from 8 percent to 28 percent between 2001 and 2021. Deutsche Bank, for example, has given up its former headquarters in Grosse Gallusstrasse and moved into the new “Main Zero“ dealer centre in Mainzer Landstrasse.

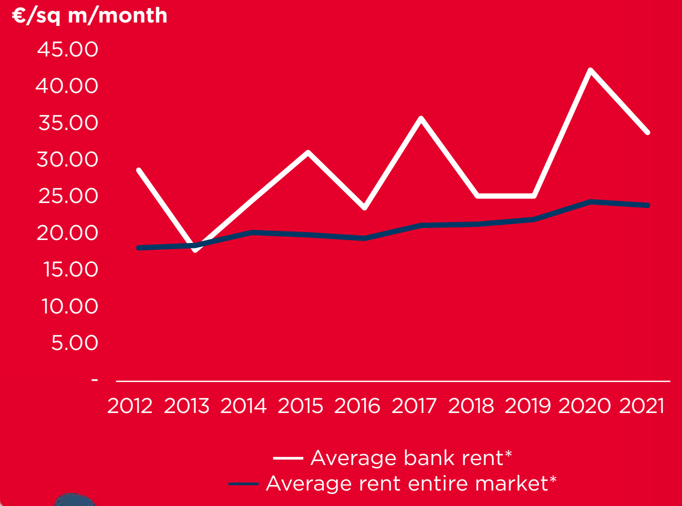
Meanwhile, the proportion of outmoded space is clearly declining. While back-office space has been massively consolidated in some cases, occupiers have also opted to improve the quality of space in their locations over the past 20 years. For example, Deutsche Bank will give up its space in TZE Eschborn by 2024 and instead expand its space in the IBC in City-West.

The average monthly rents paid by banks for their offices are correspondingly high. In 2021, the average price per square metre for bank leases was € 33.80, compared with the average rent of € 23.20/sq m for the market as a whole; a price difference of € 10.60/sq m. The average rents are subject to a high degree of fluctuation due to the variation in the number - or absence - of large lettings in any specific year.

Office stock of banks by property quality 2001, 2011 and 2021



Average rents of bank sector/ overall market (2012-2021)



*Average rent (12 months)

Banks prefer prime locations. More than 50 percent of their office space is in the Banking District and Westend submarkets. **This means that 30 percent of the office space across the central submarkets is occupied by banks.**

05

PROSPECTS

PROSPECTS

What challenges will banks face in the coming years? What influence do fin-tech companies have? And how will banks develop as players in the office rental market in the future?

5.1 Office stock in 2026

The space savings already mentioned, due to job cuts, mergers and remote working will impact the Frankfurt office market, albeit with a time lag. But to what extent?

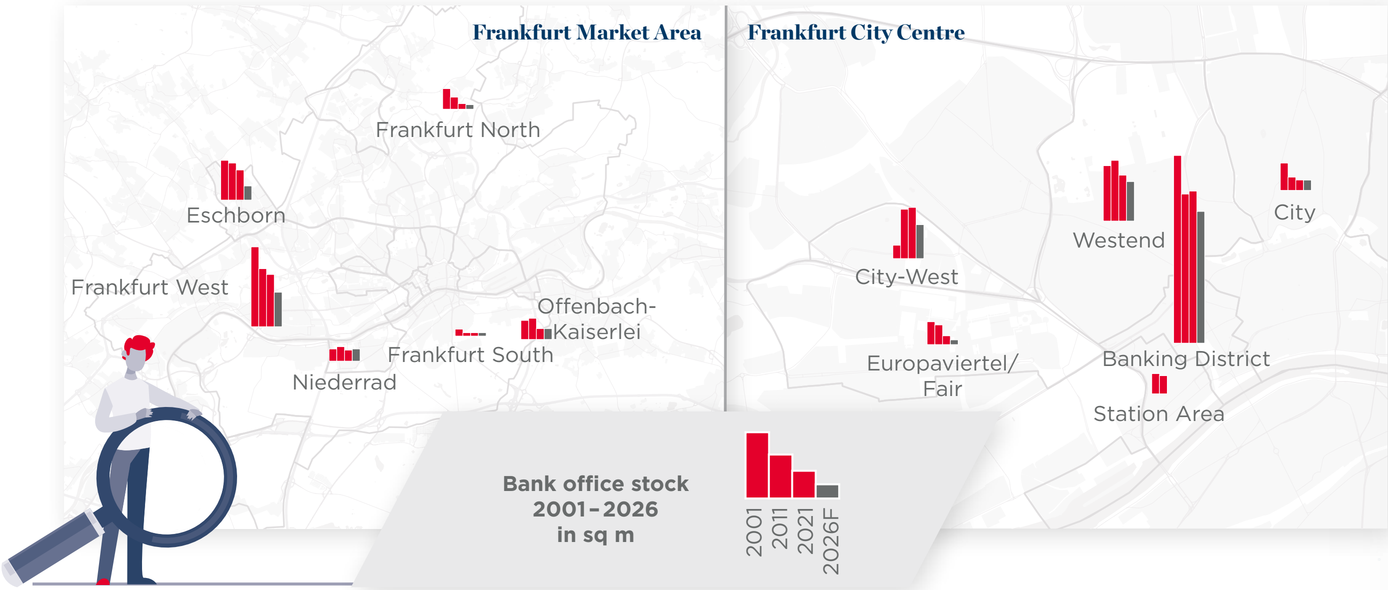
On the basis of current leases, current searches for space and planned site closures, Cushman & Wakefield has forecast the banking office stock until the end of 2026.[1] It is clear that the consolidation of office space by banks in Frankfurt will continue. By the end of 2026 their occupied area is likely to have fallen to 1.19 million sq m. This would correspond to a decline of 21 percent compared to 2021 and 40 percent compared to 2001. Commerzbank and Deutsche Bank alone are expected to reduce their office space by more than 35 percent by 2026 according to current indications. The office space actually used will actually be even less than the forecast value because some of the currently rented space is completely or partially vacant.

Consultants, the public sector and other sectors have already absorbed occupancy share from banks. Nevertheless, the trend towards space reduction is likely to continue here in the medium term. For this reason, the vacancy rate in Frankfurt is also likely to rise.

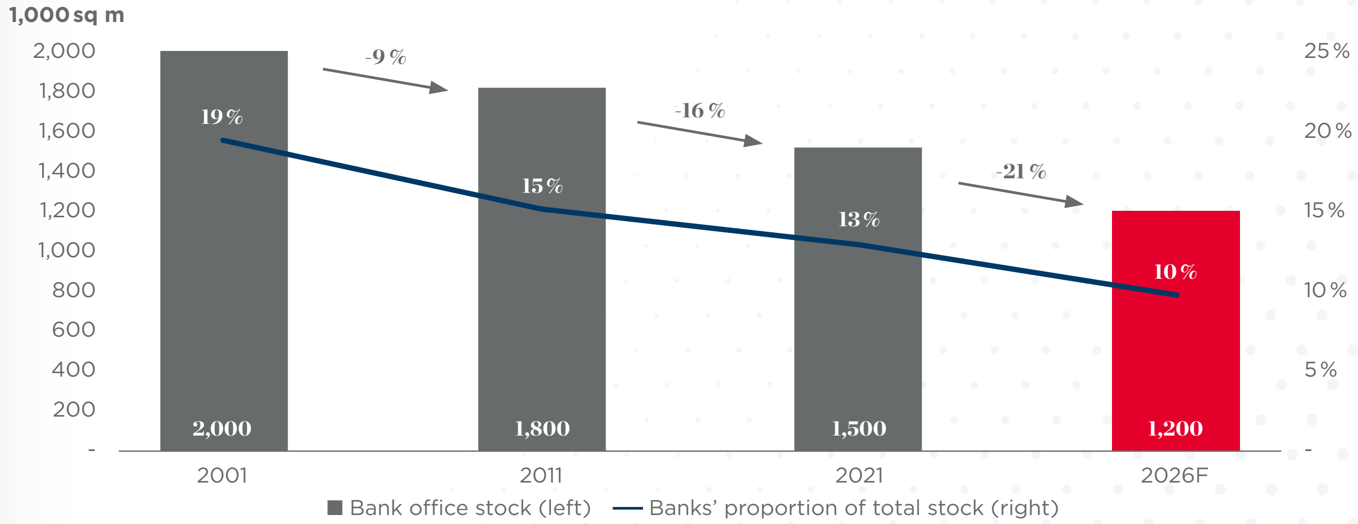
A look around the submarkets shows: the peripheral market areas will be particularly affected by the consolidation of banks, above all Sossenheim (Frankfurt West), Eschborn and City-West. In Eschborn, the space let to banks is expected to fall by more than half, and in Frankfurt West and City-West by around a third.

[1] Analysis of all leases, known applications/land returns. For users with space over 2,000 sq m, for whom no concrete relocation requests are known and leases expire by 2026, a return of 20 percent of the office space was assumed. (basis, deals concluded)

Bank office stock by submarket (2001–2026)



Bank office stock 2001, 2011, 2021, forecast 2026



5.2 Excursus: Digital currencies

It is no longer possible to imagine the financial industry without digital payment methods. Central banks such as the ECB and the FED have been working on concepts for digital currencies, so-called Central Bank Digital Currencies (CBDCs), for several years. These are not yet ready for the market. Only China has started a pilot project to introduce a digital currency, the e-CNY.

The digitisation of money should lead to increased transaction speed and automation. At the same time, it could also revolutionise the centuries-old banking system. While a credit institution has to be interposed for the settlement of fiat money transactions - currently the most common type - this would no longer be necessary for digital direct payments.[1]

The same applies to cryptocurrencies, which, unlike CBDCs, function in a completely decentralised way and are not subject to the control of central banks. Here, too, there is no need for a bank for transactions, as they are processed on a peer-to-peer basis using blockchain technology.

Trading in cryptocurrencies has meanwhile evolved from a niche market for high-risk strategy private investors into an established form of investment that is increasingly in demand by institutional investors as well.[2] Banks have so far left this segment to fin-techs and have not offered any corresponding products. At most banks, trading in cryptocurrencies is not yet possible, especially for private customers.[3]

[1] Groß, J., Klein, M. & Sandner, P.: Digitale Zentralbankwährungen: Chancen, Risiken und Blockchain-Technologie. In: Wirtschaftsdienst Zeitschrift für Wirtschaftspolitik, 10. Year 2020, Issue 7, p. 545-549.
[2] Breinich-Schilly, A. (2021): Handel mit Kryptowährungen institutionalisiert sich. Internet: https://www.springerprofessional.de/kryptowaehrungen/blockchain/handel-mit-kryptowaehrungen-institutionalisiert-sich/19759924, retrieved August 22, 2022
[3] Wirtschaftswoche (2022): Wie Banken und Sparkassen den Kryptohandel verschlafen. https://www.wiwo.de/finanzen/boerse/kryptowaehrungen-bitcoin-ether-und-co-wie-banken-und-sparkassen-den-kryptohandel-verschlafen/28271396.html, retrieved August 18, 2022

PROSPECTS

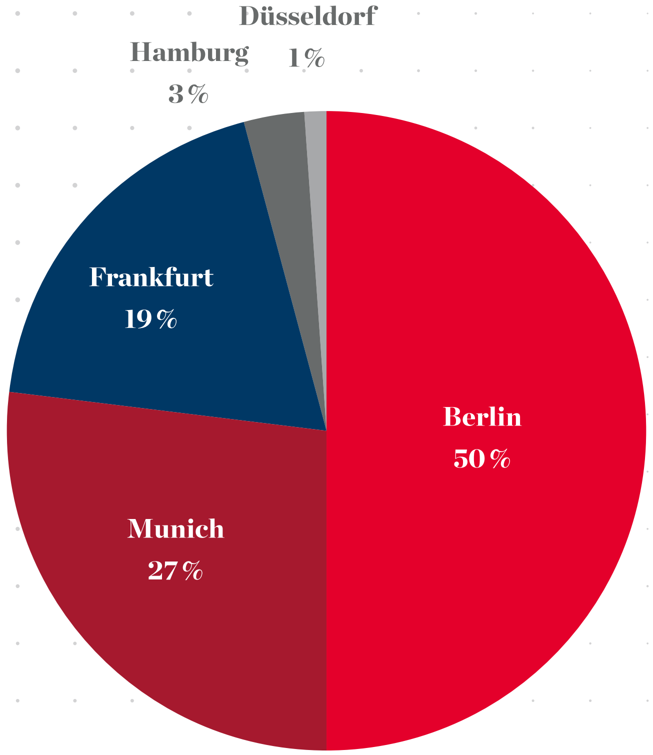
5.3 Frankfurt as a fin-tech location

Frankfurt sees itself as a banking centre and thus also as a sought-after fin-tech location. But does this correspond with the facts?

With the TechQuartier established in the Pollux office building, Frankfurt has a start-up centre for the sector. According to the company, 600 start-ups are currently located there. Payment service providers such as Worldline with its subsidiaries SIX and Ingenico and Concardis are also represented in Frankfurt. In addition, there have been some, predominantly smaller, leases by fin-tech companies in recent years.

However, the really significant deals took place in Germany's capital: Berlin has been able to establish itself as the clearly leading fin-tech location in recent years. Both small start-ups and large companies such as N26 and TradeRepublic have chosen to locate there. With an average take-up market share of 19 percent (2012-2022), Frankfurt is only in third place nationally. Due to the leases of insolvent payment service provider Wirecard, Munich positioned itself as the second-strongest fin-tech location in Germany.

Fin-tech office take-up in the Top-5 markets (2012–Q3 2022)



06

SUMMARY & OUTLOOK

SUMMARY & OUTLOOK

Frankfurt is Germany's most important banking centre. The importance of this sector for the Frankfurt office letting market is correspondingly high. But the banks are in flux. Part of their transformation strategy involves more flexible workplace concepts and office space reductions. As a result, a decline in financial institution office space in Frankfurt is expected over the next few years. However, this does not mean that there will be no more new lettings. On the contrary: some market-shaping relocation decisions are expected.

Large lettings in Sossenheim, Gallusviertel and Nieder-Eschbach are rather unlikely. Eschborn has also lost relevance as a banking location with the announcement that Deutsche Bank is giving up space, but continues to benefit from its unique selling point of having a low business tax rate. Instead, banks now prefer prime quality attractive CBD locations. However, they will also consolidate space in central submarkets or move to properties with higher space quality. In this way, large office spaces will become available throughout Frankfurt.

Vacant space in city centre locations has often been absorbed by the Bundesbank or ECB in recent years. This could continue in the future, as in the current crisis the role of the central banks is of great importance. The public sector has also been responsible for numerous large deals recently, but mainly outside the central submarkets.

However, many banks will no longer move into typical back-office locations as they did in the past. The banking office of tomorrow is flexible, bright, modern, and offers plenty of space for collaborative work and desk-sharing options. Owners must react to these changes, rethink and develop sustainable strategies and space concepts. This calls for creativity, especially where offices cannot be converted into residential apartments.

All in all, however, the real estate industry can only provide a framework so that banks in Frankfurt have suitable office space at their disposal. However, in order for new institutions to locate here and stay long-term, the offering of attractive conditions and successful marketing of the location by the municipal authorities and the state and federal governments are required.

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