

How Brexit could boost the chances of a city nicknamed Manhattan

Last month, Joe Valente, head of real estate research at JP Morgan AM, wrote a rather upbeat article on the role of London during the upcoming Brexit negotiations. In this comment, Thomas Beyerle, head of research at Catella, offers a continental perspective. He argues that other financial centres in mainland Europe such as Paris, Amsterdam and Frankfurt - or the city nicknamed Manhattan - also have high expectations.

Inhoud

The question whether the London property market should be written off is, of course, purely rhetorical. No one on either side of the Channel believes that there will be a short-term or middle-term structural shift from the world's leading financial hub on the Thames towards any city on either the Seine or the Main. There can be no doubt that the City of London will remain the primary European hub of the financial services sector.

Nevertheless the Brexit process will cause certain changes. There will be opposition in the UK to any reduction in the number of EU passport holders. Should the EU fail to comply with the requests of the financial or commercial sector, UK threats to implement a drastic reduction in commercial tax in order to retain the UK's attractiveness for EU companies are certain to ignite the first political skirmishes. There is also the issue of the planned merger between the stock exchanges in London and Eschborn! This is still far from completion.

Purely from Frankfurt's perspective Brexit is playing a key part in the discussion revolving around 'what if...?' - a question that is being asked quite regularly in the German financial metropolis. Indeed, adding up some current numbers creates several attractive scenarios. What would happen if 30,000 new financial jobs were created in the Rhine-Main area? And what if the new arrivals don't only use office space, but also live and shop here?

Does Frankfurt have high expectations? No, but prices would rise considerably.

First of all, it can be brought back to plain logic: we can't offer many more desks in the new builds that are due to be completed in Frankfurt by 2019 and most families that are brought along would be forced to settle in the surrounding Taunus area.

Of the planned office areas due for completion in 2016 (164,000 m²) and 2017 (65,000 m²) a significant portion - or 98,000 m² and 39,000 m² respectively - have already been pre-leased. The Omnium high-rise projects in the former Metzler area and Marienturm, which are currently under construction, won't be available before the end of 2018. The new developments on the Deutsche-Bank-Triangle will only be completed in the next decade and therefore wouldn't be available on time.

To be sure, the vacancy rate in Frankfurt is currently quite high at 11.8% and in purely quantitative terms some 1.36 million m² of office space is still available. However, it all comes down to the individual demands regarding location and quality. Of the available space, we calculate that only 100,000- 150,000 m² could be identified as target space. There would be competition for these spaces, which in turn would lead to a rise in prices in the submarkets in the banking district and city centre.

Should financial companies choose to relocate to Frankfurt, more jobs would be created and the higher wage levels would have an impact on residential rental prices as well as purchase prices and consumer spending. In the transitional phase, I see potential for a significant revival of the serviced apartments and compact housing segments. After the transitional phase and completion of the planned living and mixed-use towers, it may be expected that these spaces would become eligible for long-term lease and sale. This comes down to the fact that from an international perspective 'high-rise-living' makes up a substantial part of the property market.

A decision in favour of Frankfurt would significantly affect the property market, just as structural adjustments ushered in more recently due to the ECB or rather banking supervision. Even if irrational speculation is ignored, prices would receive a major boost due in particular to the fact that Frankfurt/Rhine-Main-Area lays claim to the title 'attractive because cheap'.

Frankfurt's traditionally strong yields are already continually under pressure. The city nicknamed Mainhattan should therefore prepare for a further boost when Brexit eventually happens in 2019. Project developments will strongly influence the city's image and some will no doubt receive the highest purchase prices on record during this phase as the strain on property markets continues to intensify.

But as I said before, that is what could happen if we look beyond the question 'What if...?'

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