

RESEARCH



MUNICH

OFFICE MARKET OUTLOOK
Q2 2017

OFFICE LEASING

INVESTMENT TRENDS

OUTLOOK

KEY FINDINGS

Total take-up of space was 415,000 sq m in the first half of 2017 - IT companies, manufacturers and consulting firms being the most active.

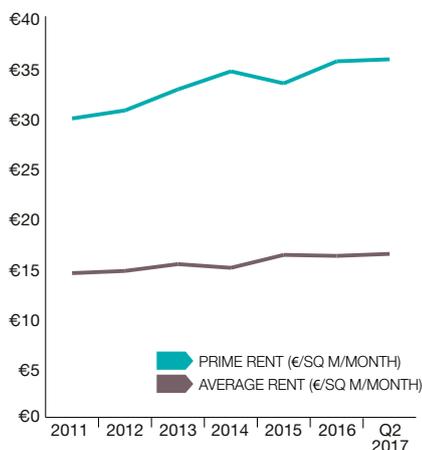
Vacancy rate at 2.4%, in the city at 1.5%, in Munich's surroundings at 5% – few number of project developments and new build activity.

Moderate increase in average rents to €16.30 per sq m per month, prime rents at €35.80 per sq m per month.

Transaction volume of €2.25 billion. Prime yields for office buildings decreased to 3.15%. Offices were once again the most popular property type resulting in a 45% share.

Prime and average rents

€ per sq m per month



Source: Knight Frank Research

OFFICE LEASING

In Q1-Q2 2017 Munich's office market shows a further decrease in vacancy and consistently high demand. The importance of space in surrounding areas is growing and has led to a more moderate increase in average rents.

Take-up

Just like the strong start in Q1 2017, Munich's total take-up of space was at 415,000 sq m after the first six months – this exceeds even the previous year value.

IT firms were the most active industry by creating a share of around 25% (~ 102,000 sq m) followed by manufacturing firms with a take-up of approximately 79,000 sq m. Consulting companies were ranked 3rd by renting nearly 50,500 sq m.

Rents

By shifting the focus to Munich's surrounding areas the average rents increased only moderately and amounted in €16.30 per sq m per month.

Prime rents remained nearly unchanged at €35.70 per sq m per month.

Due to decreasing incentives Munich's office market can be declared as landlord-friendly only.

Vacancy

Demand for space in Munich remains high causing a further decrease of the vacancy rate landing at 2.4% in total and 1.5% in the city area. In the surroundings vacancy is still higher at 5%.

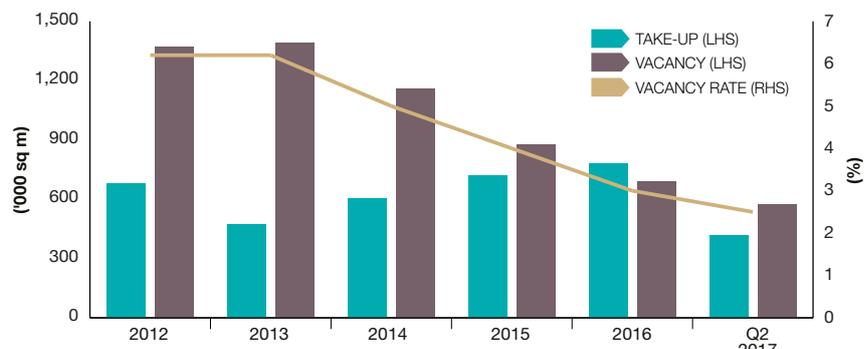
In addition to that there have been no changes regarding project developments. For 2017 the completion of around 170,000 sq m is planned, but almost 90% have been taken up already.

Outlook

Due to consistently high demand for space the importance of cheaper surrounding areas will further increase leading to a slower increase of the average rents. Large-scale tenants particularly will have to reorientate to surrounding areas as there is almost no large-scale opportunity in the city itself especially regarding high-end space.

Munich has a diverse occupier base and is less exposed to demand volatility. Demand is expected to remain robust - take-up of 750,000 sq m is forecast for the full-year.

Office take-up and vacancy



Source: Knight Frank Research

INVESTMENT

High and mid-volume transactions and decreasing yields dominated Munich’s investment market. Transactions of hotel assets saw a strong upswing in Q1-Q2 2017.

Transaction volumes and yields

As the rental market is booming and Munich is a preferred location even the investment market is strong. A couple of high-volume transactions and many mid-volume deals created a transaction volume of around €2.25 billion in the first six months of 2017.

Investments in new constructions during the project phase are particularly interesting for investors that see high potential in Munich’s market.

Especially for core-properties yields diminished to only 3.15%. Shifting the market to secondary and tertiary location leads to more and more deals with yields sub-5% in the surrounding areas.

Investment properties

National and international investors still focus on office assets creating a share of approximately 49% of the total transaction volume. Logistics assets and retail deals accounted for 8% and 5%.

Investments in hotel assets gain importance and increased to a share of around 25%. The sale of the Pullman Hotel in the north of the city is a brilliant example of the upswing of hotel deals.

Buyers and sellers

Open-ended real estate and special funds invested approx. €500 million and were the most active buyers in the first half of the year followed by project developers with nearly €480 million. Asset managers invested approximately €350 million. Also insurance companies and private investors bought properties in the three-digit million range. International investors contributed 30% to the total volume.

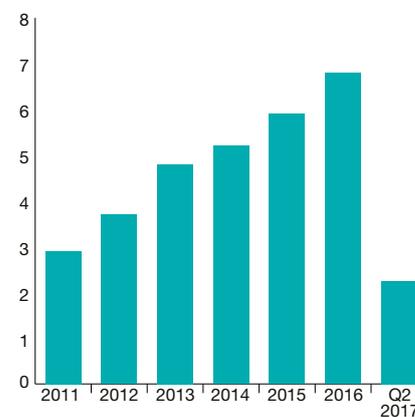
By selling properties of approximately €890 million project developers were the most active sellers in Q1-Q2 2017, while opportunistic investors and insurance companies created sales proceeds of each approximately €235 million. 15% of the total volume was sold by foreign investors.

Outlook

Due to the limited offer in the city and the small markets in surrounding areas yields are expected to continue to decrease.

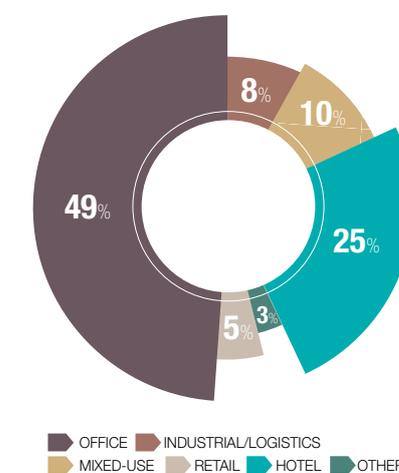
The active rental market has positive influence on the investment market. We are aware of high-volume deals which will come to the market in the second half of the year so a transaction volume up to €7 billion seems very likely.

Commercial property investment volumes € billion



Source: Knight Frank Research

Investment volumes by sector %



Source: Knight Frank Research

Key recent property investment transactions Q2 2017

Property	Submarket	Buyer	Seller	Property size	Deal volume
Pullman Hotel (Theodor-Dombart-Straße 4)	Schwabing West	CDL Hospitality Trust	int. Immobilienfonds	337 rooms	€104,7m
Sirius Business Park (Rupert-Mayer-Straße 44)	Obersendingling	Fiduciary Capital	Sirius Real Estate	80,000 sq m	€85m

Source: Knight Frank Research

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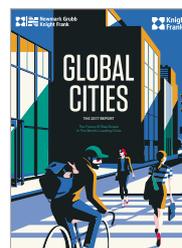
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