RESEARCH

Knight Frank

MARKET REPORT MUNICH

HALF YEAR REPORT H1 2018

OFFICE LEASING | INVESTMENT MARKET | OUTLOOK

KEY FINDINGS

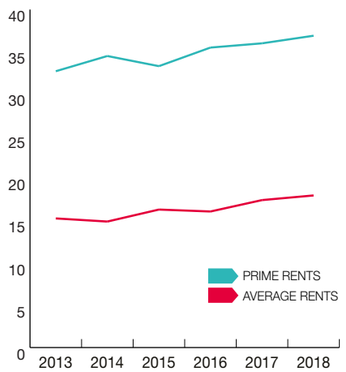
Take-up of 475,000 sq m, share of owner-occupiers almost 22,000 sq m, numerous major contracts also over 10,000 sq m, lettings in the inner city area and east of Munich most active.

Vacancy rate fell to 2.1% in the city and 4% in the surrounding areas of Munich, within the Mittlerer Ring only 1.4%. The high pre-letting rates prevented any increase in vacancy rates.

Increase in average and prime rents to €18.00/sq m/month and €36.90/sq m/month, the highest rents are achieved in the CBD area and Bogenhausen sub-market.

Transaction volume of around €3.5 billion, prime office yield 2.9%, most popular asset class continues to be office properties, but hotels are attracting increased investor interest, 45% of funds came from abroad, competition among investors continues to intensify.

FIGURE 1
Prime and average rents
€ per sq m per month



Source: Knight Frank Research

OFFICE LEASING

Vacancy rates reached alarming levels forcing large tenants to rent in secondary locations and preventing expansion plans. No easing in the market is foreseeable at present.

Take-up

In the first half of 2018, a particularly high take-up of space of almost 250,000 sq m was achieved. The consistently high demand for large areas led to several deals over 10,000 sq m.

An exceptionally high level of activity was recorded in the city centre, but numerous rentals in eastern Munich, the sub-market with the highest space potential, also set this record. The rentals were increasingly concentrated on the development of new buildings, as large, high-quality existing areas in the city area are hardly available any more.

The manufacturing sector contributed the most to the half-yearly take-up of space with approx. 18%, closely followed by the IT sector with 16%. Demand from the public sector declined slightly, accounting for 13% of the total take-up. Coworking providers are also continuing to expand strongly.

Rents

Rents have again risen slightly. The average rent rose to €18.00/sq m/month, in the city area it was €19.70/sq m/month.

Top rents rose to €36.90/sq m/month, with individual submarkets still achieving values well above this. As in previous quarters, the highest rents were achieved in the CBD segment and in the Bogenhausen sub-market. Rents are also rising for large contracts – in some cases up to more than €28.00/sq m/month.

Due to increasing rents in the surrounding areas, the average rent in the surrounding area also rose to €11.40/sq m/month.

Vacancy

The vacancy rate on the Munich City office market has fallen to 2.1%, with a downward trend in vacancy rates in the surrounding area, where the figure is 4%. Within the Mittlerer Ring, the vacancy rate is 1.4%, which is leading to an increase in lettings in less popular submarkets.

Although more newbuild space is expected to increase the total stock in 2019, there is no easing of the market in sight, as pre-letting rates are significantly higher than in previous years.

Outlook

The Munich office market remains tense, while rising rents, low supply of space and sustained high demand are leading to a market that remains strongly landlord-oriented.

What is particularly striking is the sharp rise in pre-letting rates and the rapidly falling vacancy rates in the surrounding areas. As large applications in particular have to move to surrounding areas, vacancy rates are expected to fall more sharply in the coming quarters, while vacancy rates in the city centre are expected to fall steadily but rather moderately.

For the year as a whole, we expect letting turnover of up to 850,000 sq m, as demand is expected to remain strong.

TABLE 1
Largest occupier deals in H1 2018 (excluding owner-occupiers)

Tenant	Property	Submarket	Size
City of Munich	QUBES Agnes-Pockels-Bogen 33	Moosach	24,000 sq m
City of Munich	Hofmann Höfe, Hofmannstraße 61, 63, 69	Thalkirchen	17,000 sq m
City of Munich	Implerhöfe, Implerstraße 11	Sendling	13,000 sq m
WeWork	Art Deco Palais, Arnulfstraße 56-60	Maxvorstadt	12,300 sq m
MSD Sharp & Drohne	Die Macherei, Berg-am-Laim-Str. 15	Berg am Laim	8,500 sq m

INVESTMENT

Numerous mega deals led to a record volume. The scarce supply of premium products continues to be an issue to national and international investors.

Transaction volumes and yields

As in the office leasing market, transaction volumes reached record levels in the first half of 2018. 13 major transactions in the three-digit million range provide a volume of €3.8 billion. The share of major transactions in the total volume amounts to approx. 60%.

Meanwhile, prime yields have remained largely stable at 2.9%. The great demand for premium products cannot be met as there is a strong lack of high-quality opportunities on the Munich market. This not only results in a further yield compression in central and CBD locations, but also causes yield declines in the surrounding area, where the peak yield is currently just under 4.9%.

Investment properties

With regard to the active office letting market, office properties remain the most popular asset class. They accounted for over 65% of the total volume. However, due to the continuing shortage of core properties in the office segment, other asset classes are also attracting the interest of national and international investors. For example, hotel properties accounted for just under 10% of the transaction volume, while retail products accounted for only 5%.

Buyers and sellers

Closed-end real estate funds invested around 19% of the total volume, but were only 3% above the share of family office/private investors. 13% of the transaction volume came from asset and fund managers. As in the previous year, the trend towards a balanced distribution of buyer groups remains stable.

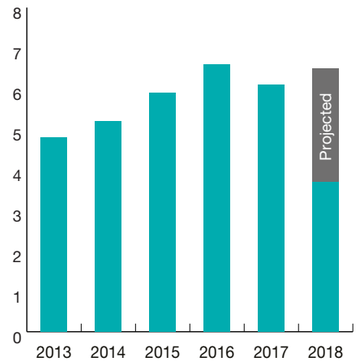
On the seller side, open-ended real estate funds and special funds were again more active in the first half of 2018 with 22% as project developers and property developers with a share of 16%. Once again, closed-end real estate funds ranked third with just under 15%.

Nearly 45% of investment funds were of international origin, while international sellers accounted for 30%.

Outlook

In view of the active office letting market and the continuing high demand for commercial properties in Munich, the Munich investment market will continue to show particularly strong sales in the second half of the year. A number of major transactions are planned to be concluded by the end of the year, which is why we expect a volume of up to €7 billion, which would again represent a record figure.

FIGURE 2
Commercial property investment volumes € billion



Source: Knight Frank Research

TABLE 2
Largest investment transactions in H1 2018

Property	Submarket	Buyer	Seller	Size of Space	Deal volume
East Side Offices, St.-Martin-Straße 76	Ramersdorf	InfraRed Capital Partners	OfficeFirst	63,000 sq m	€235 million
SZ Tower, Hultschiner Straße 8	Haidhausen	Art-Invest Real Estate	Axa Real Estate Investment Managers / Norges Bank Real Estate Management	62,200 sq m	€244 million
AVIVA, Carl-Wery-Straße 34	Neuperlach	Korea Investment Corporation (KIC)	KGAL	60,000 sq m	€250 million
Correo Quartier, Bayerstraße 49-53 / Paul-Heyse-Straße 7	Ludwigsvorstadt-Isarvorstadt	Credit Suisse	Postbank	45,292 sq m	€275 million

Source: Knight Frank Research

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