RESEARCH

MUNICH

OFFICE MARKET OUTLOOK

Q3 2016

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

KEY FINDINGS

Office take-up for Q1-Q3 totalled 552,000 sq m, the highest level since 2008, with the consulting, IT and manufacturing sectors being most active.

The Munich vacancy rate fell to 3.2%, and a lack of new supply is causing the market to become increasingly favourable to landlords.

Prime rents have increased to €34.00 per sq m, while average rents have reached €16.30 per sq m.

Transaction volumes totalled €3.3 billion in Q1-Q3 and prime mixed-use yields decreased to 2.9%, with the market remaining highly liquid.

Open-ended funds, special funds and project developers were the most active buyers, while project developers were the most active sellers.

OCCUPIER MARKET

High levels of office leasing in Munich have led to a decreasing vacancy rate which, coupled with limited new development, is creating a market which is increasingly balanced in the favour of landlords.

Office take-up

Munich office take-up amounted to 552,000 sq m during Q1-Q3 2016; excluding owner-occupiers, the total was 514,000 sq m. Of the total take-up, 24% was generated by large deals in excess of 5,000 sq m.

Consulting firms, IT companies and manufacturers were the most active occupiers in the Munich office leasing market during the first three quarters of 2016. The public sector was also very active, with the largest leases signed in the year-to-date being the Institute for Federal Real Estate's lease of 15,200 sq m in Sendling and the City of Munich's 15,100 sq m deal in Ramersdorf.

Rents

Strong demand and limited supply have led to rental increases. Prime rents have reached €34.00 per sq m, a 2% rise since the end of 2015. In addition to the increases in asking rents, landlords have decreased the incentives on offer to tenants.

Average rents stood at €16.30 per sq m in Q3 2016. Within the municipal area, average rents reached at €17.40 per sq m, whereas in the city outskirts, they were only €11.00 per sq m.

Supply and vacancy

The overall vacancy rate fell to 3.2% in Q3 2016, while inner city vacancy decreased to just 2.1%. In Munich's surrounding areas, 6.5% of space was available for immediate tenancy.

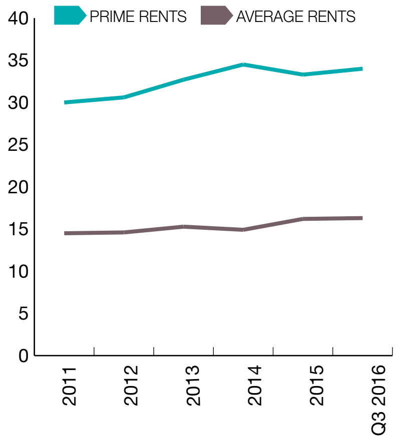
There have been very few office completions in 2016, and only 176,400 sq m of new space is planned to be completed in 2017. There is considerable potential for office development in the Werksviertel district, where WERK 3 has been completed and HighriseOne and ATLAS are under construction.

Outlook

Office supply levels will remain limited due to the relatively small size of the development pipeline, and this will mean that the Munich market will be increasingly balanced in the favour of landlords.

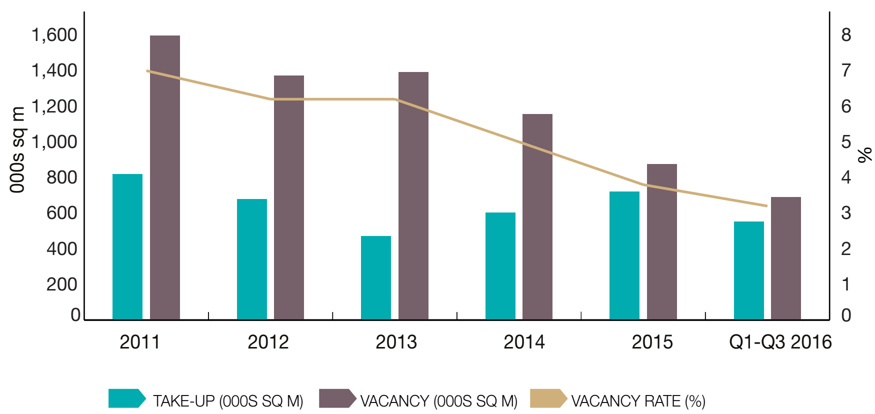
Full-year take-up of 700,000 sq m is forecast for 2016, with office demand expected to remain strong in the final quarter of the year.

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



Source: Knight Frank Research

FIGURE 2
Office take-up and vacancy rates



Source: Knight Frank Research

INVESTMENT MARKET

Transaction volumes and yields

A total of €3.3 billion was invested in commercial property during Q1-Q3 2016, which represented a 13% decrease compared with the same period of 2015.

The largest transactions of the year have been the sales of the BayWa building, the Karstadt building and the NOVE office project, which is currently under construction.

Munich remains the most expensive market in Germany, with gross initial yields at 3.3% for prime office buildings and at 2.9% for mixed-use CBD buildings with office and retail components.

Investment types

Offices were the most popular sector for investors during Q1-Q3, with transactions totalling €2.2 billion, or 66% of the total commercial volume.

Some way behind, logistics & industrial and retail assets both accounted for 7.4% of the total transaction volume. Land sites and mixed-use assets both had market shares of 8%.

Buyers and sellers

Approximately €780 million, or 22% of the total investment volume, was generated by open-ended and special funds. Investment by project developers represented €710 million of the total volume, while insurance companies invested over €400 million. High prices and low vacancy rates have deterred opportunistic investors, who took only a 5% market share.

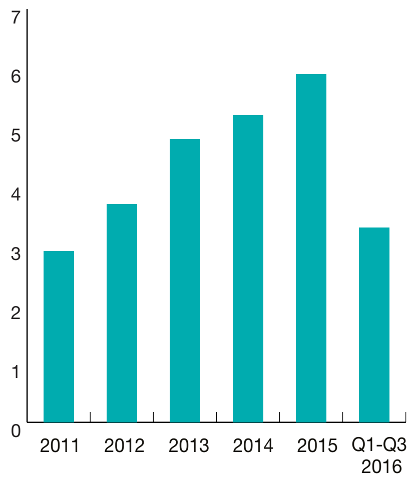
The most active sellers were project developers, coming in at €1.0 billion, ahead of private investors (€450 million) and asset managers (€350 million).

Outlook

Transaction volumes in Q1-Q3 2016 were down compared with the same period of 2015, but were nonetheless higher than the long-term average. Full-year investment for 2016 is forecast to be around €5 billion.

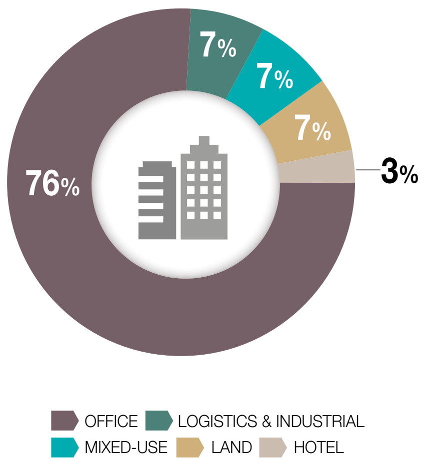
Investor demand is expected to remain strong, and the intense competition for prime assets in Munich will lead to further yield compression.

FIGURE 3
Commercial transaction volumes
€ billion



Source: Knight Frank Research

FIGURE 4
Investment by property type
%



Source: Knight Frank Research

Theresienhöhe district, Munich

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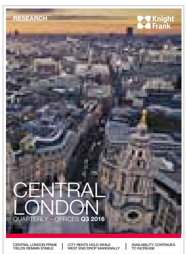

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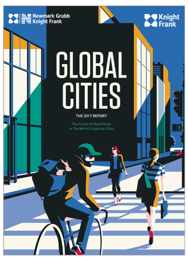

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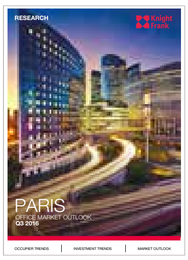

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