BNP PARIBAS REAL ESTATE

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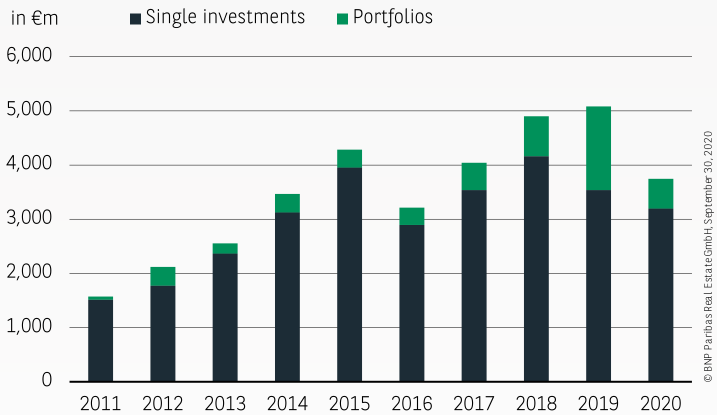
RESEARCH

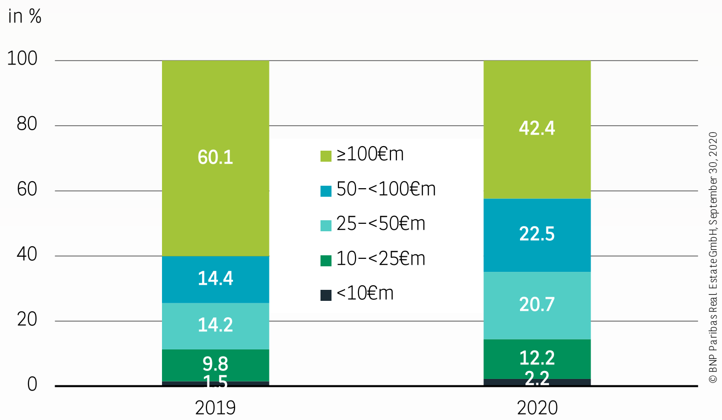
At a Glance Q3 2020

INVESTMENT MARKET MUNICH

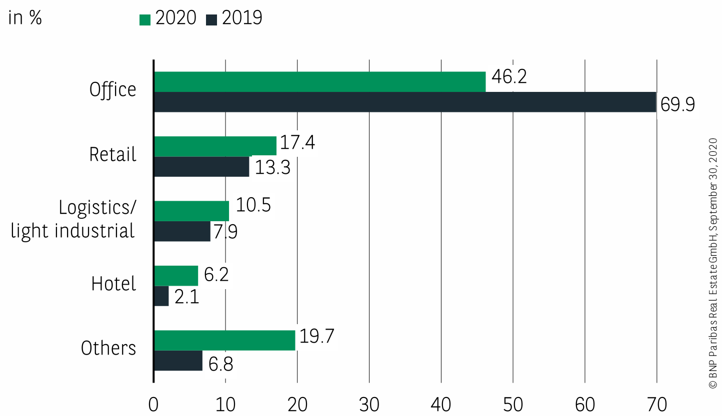
Investment volume Q1-3



Investments by € category Q1-3



Investments by type of property Q1-3



INVESTORS SHIFTING A GEAR: STRONG Q3

In the first three quarters of 2020, a commercial transaction volume of around €3.75 billion was registered. Compared with the exceptional figure for the previous year, this implies a decline of 26%. Nevertheless, the ten-year average was exceeded by a good 7%. The second quarter is primarily responsible for the weaker result, as large volume deals were temporarily put on hold during the lockdown. In the third quarter, investors eased the brakes again. With sales of around €1.66 billion from July to September, the second-best result in the last ten years was achieved. This is strong evidence of the continuing great confidence investors have in the future development of the Bavarian capital. In a nationwide comparison, Munich ranks third, behind the capital Berlin and was only just beaten by Hamburg. Of the total investment volume, € 549 million are attributable to portfolio deals which record an average market share of 15%. Among the most important transactions are the sales of the headquarters of Random House, the office development South Horizon (SoHo), the mixed-use Perlach-Plaza complex and buildings 1 and 2 of Weißes Quartier.

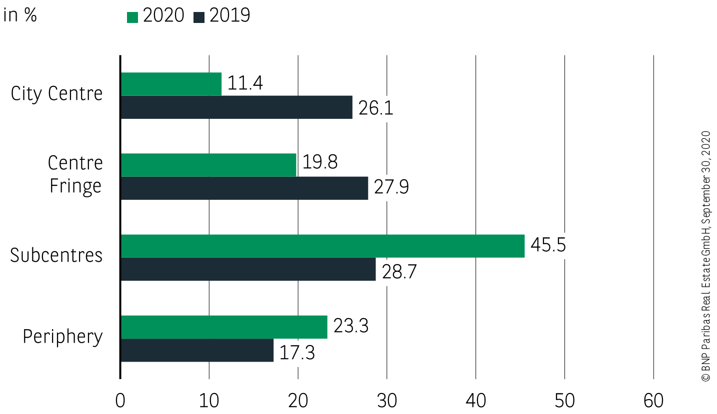
ACTIVITY IN ALL SIZES

Due to postponed major transactions during the lockdown, the share of sales in the triple-digit million range is disproportionately low compared to recent years at just 42%. As a consequence, the classes from € 50 to 100 million (22.5%) and between € 25 and 50 million (just under 21%) saw a significant increase in relative terms. What is particularly remarkable, however, is that they also show higher investment volumes in absolute terms. The two smaller categories up to € 25 million have also gained in relative importance.

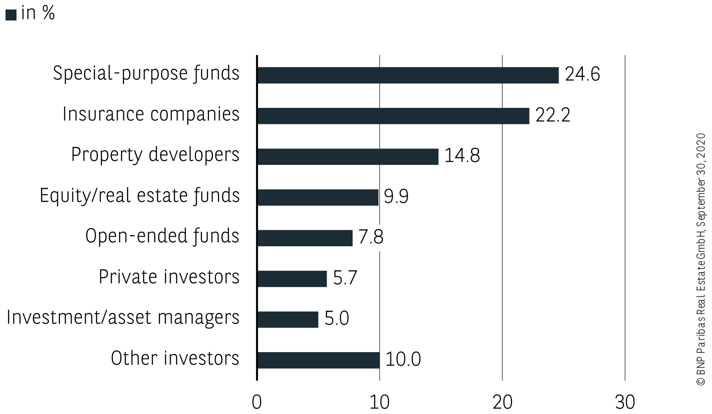
BELOW-AVERAGE MARKET SHARE OF OFFICE SPACE

Although office properties have so far been the most important asset class with a current market share of around 46%, they are below average in a long-term comparison. In contrast, retail investments generated an impressive 17% to total turnover, although it should be noted that portfolio sales have had a considerable influence. Logistics real estate (10.5 %) and hotels (6 %) follow next in line. What is particularly striking is the 20% share of the general category "others". A good two-thirds of this volume results from development properties.

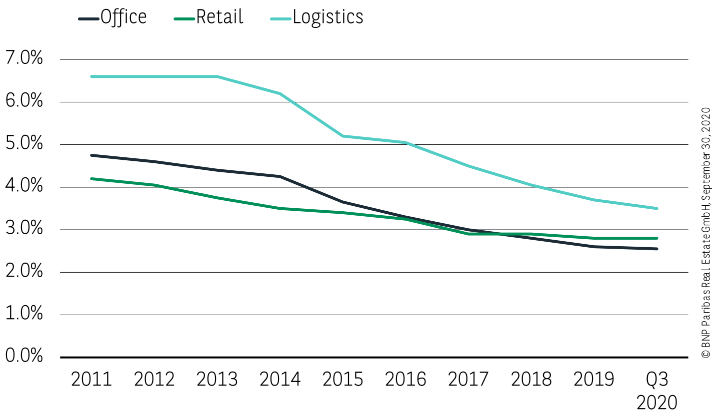
Investments by location Q1-3



Investments by buyer group Q1-3



Net prime yields by type of property



PRODUCT RANGE DETERMINES INVESTMENT ACIVITY

In Munich more than in other cities, potential buyers have to make do with the existing product supply disregarding their location preferences in the first place. This situation is underlined by the results for the first three quarters with the Subcentres submarket accounting for 45.5% of. By contrast, City Centre locations that are traditionally particularly sought-after only account for just under 11%, as there are simply not enough properties for sale. Munich's Periphery ranks third (23%) and are thus still ahead of the Centre Fringe zones (20%). Again, Munich's supply side sets the tone also for these submarkets.

THREE BUYER GROUPS WITH DOUBLE-DIGIT SHARES

While insurance companies were still in the lead at the end of the first half of the year, they slipped to second place in Q3 with a good 22% market share. As expected, special-purpose funds, which account for almost a quarter of the transaction volume, have now taken the lead. The leading three is completed by property developers, who account for a strong 15%. Here, too, it is apparent that many market participants view the effects of the Corona crisis as a temporary disruption that should not alter Munich's good long-term prospects fundamentally. Equity/real estate funds (just under 10%), open-ended funds (almost 8%) and private investors (nearly 6%) also left their mark.

YIELD COMPRESSION IN THE CORE SEGMENT CONTINUES

As many investors are concentrating on core properties in the current economic environment, yield compression in this segment has continued. As a result, the prime yield for offices decreased slightly in the third quarter to 2.55 %. Thus Munich, together with Berlin, remains at the top of all locations. The prime yield for logistics, which is now at 3.50 %, has also fallen significantly once again. By contrast, the figure for commercial retail properties in premium CBD locations has remained stable at 2.80 %.

OUTLOOK

The recent significant market revival and the overall economic recovery tendencies - in conjunction with major deals currently in the marketing process - indicate further positive development in the final quarter of 2020. While the focus in the 2nd and 3rd quarters was almost exclusively on core properties, increasing interest in well-connected subcentre locations can currently be observed. Against this background, it seems quite realistic that the €5 billion threshold will again be surpassed in the year as a whole and that the level of traded investment volume of recent years can be roughly maintained. With regard to yields, a stabilization at the current level is more likely than further declines.

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