Real Estate
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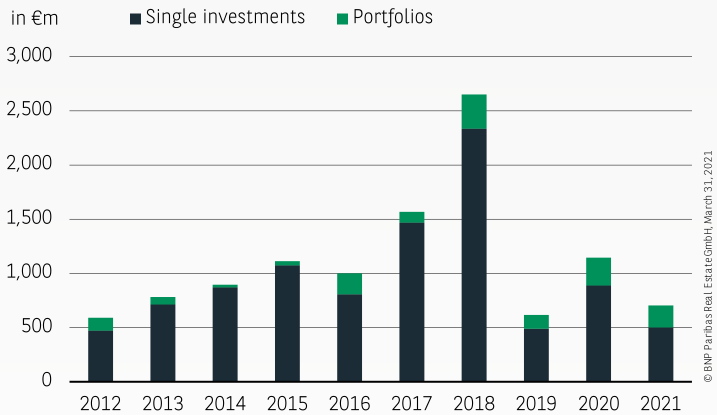
RESEARCH

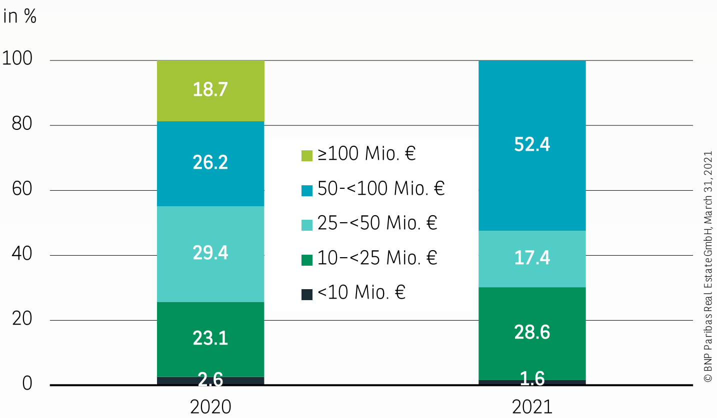
At a Glance Q1 2021

INVESTMENT MARKET MUNICH

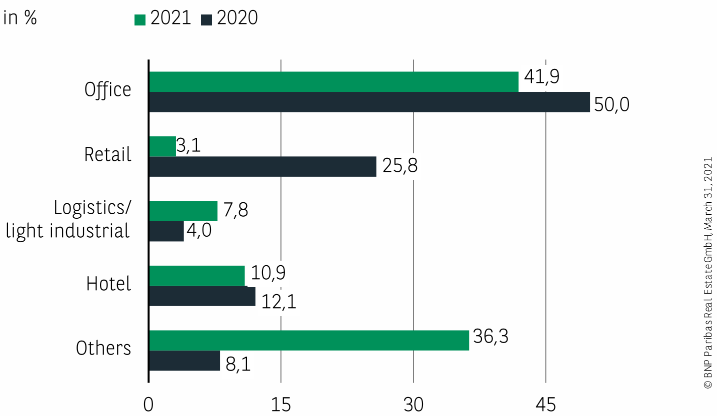
Investment volume Q1



Investments by € category Q1



Investments by type of property Q1



INVESTMENT MARKET: STILL ROOM FOR IMPROVEMENT

The Munich investment market starts the new year with a transaction volume of €704 million. Compared with the exceptional first quarter of the previous year, this represents a significant decline of 39%, and the long-term average is also missed by more than a third. However, as it is a Q1 result only, it must be interpreted first of all as a snapshot that does not yet say much about the expected annual result. In 2019, when the Munich investment market set its all-time high of over €10 billion in transaction volume, only €617 million was registered in the first quarter, 14% less than currently. One of the reasons for the moderate performance to date is most of all the lack of major deals in the triple-digit million range . As in the other A-cities, the very good prior-year result was also determined by major portfolio sales, which are currently also still lacking. In a nationwide comparison, Munich nevertheless ranks third with the volume achieved, behind Berlin and Frankfurt.

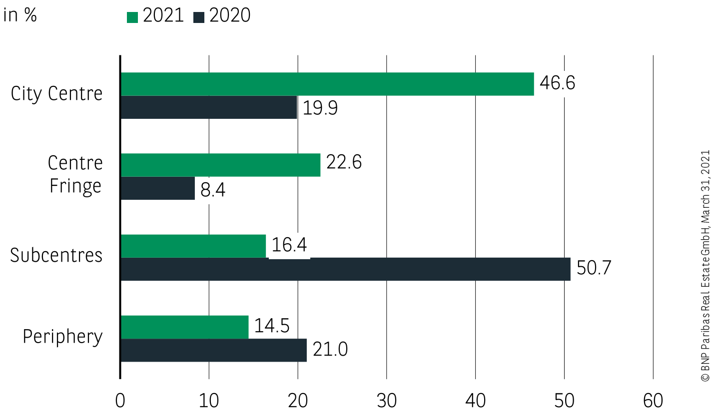
A LOT OF ACTIVITY IN THE MID-MARKET SEGMENT

It is unusual that no deal over €100 million has yet been realized. Even in the first quarter of the year, their long-term average market share is usually a good third. Sales of between €50 million and €100 million have stepped into the breach in Q1 2021, accounting for a good 52% of transaction volume. The absolute volume of €369 million not only exceeds the previous year's figure by €69 million, but also represents the second-best result in the last ten years. The market share of smaller transactions of between €10 million and €25 million also increased noticeably, contributing around 29% to total investment volume to date.

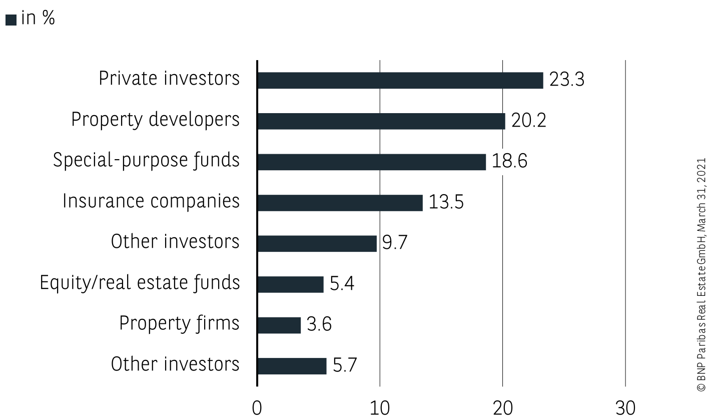
OFFICES AND DEVELOPMENT PLOTS IN DEMAND

Office properties, an important asset class not only in Munich but in all major locations, account for 42% of investment volume and have thus been underperforming in a long-term comparison. This is due to insufficient supply and a lack of major deals. However, transaction volumes are expected to increase significantly over the course of the year. In second place, surprisingly, is the collective category Other, which accounts for 36%. This category includes development plots, which account for a good three quarters of the total, and mixed-use properties. Property developers therefore continue to have great confidence in long-term market perspectives. Third place goes to hotels with just under 11%.

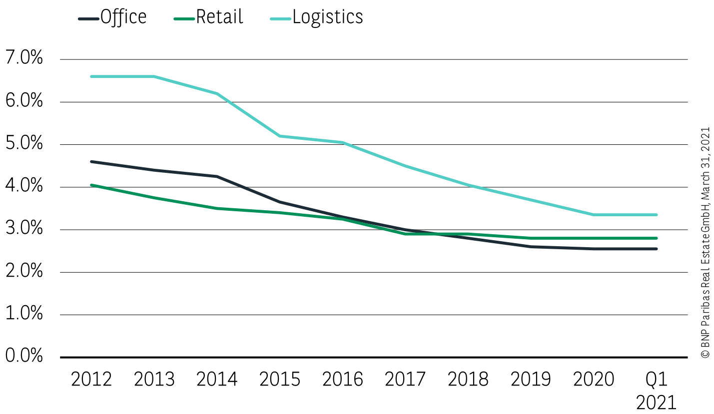
Investments by location Q1



Investments by buyer group Q1 2021



Net prime yields by type of property



COMEBACK OF THE CITY

While the City Centre had contributed far less to the transaction volume in recent years than usual driven by far too low supply, it was able to celebrate a small comeback in the first quarter of the current year and, with 47%, once again took the lead of all locations. This was due not least to a number of deals worth between €50 million and €100 million. Centre Fringe locations follow in second place, contributing just under a quarter (23%). Last year's winners, the Subcentres, returned to their usual level of 16%, placing them just ahead of the Periphery, which accounted for 14.5% of the investment volume.

UNCHANGED BROAD SPREAD OF BUYER GROUPS

Although the buyer structure shows the usual broadly diversified picture for Munich, the field is led by investor groups that one would not necessarily expect at the top: Private investors are in first place, accounting for 23% of sales. This shows that in the current interest rate environment, real estate is also an extremely attractive asset class for wealthy private investors. Second place is taken by property developers, who contribute a good 20%, which can also be seen as a vote of confidence in the outlook for the Bavarian capital. Double-digit contributions are also made by special-purpose funds with just under 19% and insurance companies with 13.5%. Together, these four buyer groups account for three quarters of the result.

YIELDS CURRENTLY STABLE

While prime yields had continued to decline slightly even in 2020, a year marked by the pandemic and lockdowns, a sideways movement can be observed for all types of use in the first quarter of the current year. The net prime yield for offices thus remains unchanged at 2.55%, and highstreet property in absolute inner-city premium locations continues to be quoted at 2.80%. The situation is exactly the same for logistics yields, which are currently still quoted at 3.35% after the impressive yield compression of previous years.

OUTLOOK

Despite the relatively moderate start to the year, it can be assumed that the momentum will not only continue but even accelerate in the coming quarters as a result of significant impetus. Contributing to this will be, on the one hand, a whole series of major sales already in concrete negotiations and, on the other, the foreseeable business recovery. Based on this, a transaction volume of between €5 billion and €6 billion for the year as a whole appears entirely realistic. A further slight yield compression cannot be ruled out in the months to come.

Imprint Publisher and copyright: BNP Paribas Real Estate GmbH | Prepared by: BNP Paribas Real Estate Consult GmbH | Status: 31.03.2021

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