At present, the Munich office space market seems unstoppable, and in the first quarter it registered a new all-time high with take-up of 253,000 m². That bettered the already very good prior-year result by a remarkable 40 %, and was almost half as much again as the ten-year average. So Munich has regained the top slot among the German office locations that it last year had to cede to Berlin. Just as in the prior-year period, all the size classes contributed extensively to turnover, showing that the record performance was not due simply to a few major leases but was instead fuelled by broad and stable demand in all market segments. The biggest contracts were concluded by Infineon (15,000 m²) in Region South, Deutsche Pfandbriefbank (13,400 m²) in Region North, the City of Munich in its function as capital of Bavaria (12,900 m²) in the City Centre, and the European Patent Office (11,000 m²) in Region East. The fact that the big new leases were located predominantly in the outskirts of Munich highlights the inadequate supply of sizeable connected premises in the central areas.

Mirroring the positive overall development of the German economy was the way in which take-up in Munich was distributed across the different business-sectors. In the first quarter, industrial headquarters, traditionally a relatively strong force in this city, accounted for around one quarter of total turnover. Then, close together in second and third places, came public administration (17 %) and information and communications technologies (over 16 %). Other sizeable contributions were made by the collective group of other services (just under 10 %) and consultancies (just over 9 %). Generally speaking, the distribution was not quite as balanced as in previous years.

The long-apparent steady reduction in vacant space has continued unabated in the past twelve months. The volume now totals 829,000 m², which is 8 % below the prior-year figure and represents the lowest level since 2001. It is pleasing to note that the decline has not extended to modern vacant premises; the volume of unoccupied space in this quality category has actually grown by a modest 9.5 % and now accounts for 241,000 m², around 29 % of the total. The vacancy rate has continued to fall; in the overall market it now stands at 4.0 %, while the figure for just the municipal area is only 2.7 % — a level that is no longer sufficient to fully meet all enquiries, particularly in the segment of sizeable connected premises.
SHARP RISE IN SPACE UNDER CONSTRUCTION
Gratifyingly, the market has started to react to the appreciable shortage of space. Within the past year, space under construction has more than doubled (+118%), producing a current volume of 531,000 m². Around half of this (270,000 m²) is still available to the rental market; this is, though, only just over 17% above the average level of the past ten years. In view of the existent bottlenecks in supply, the expansion in space availability must be considered moderate; it is not the result of any exaggerated building activity.

RENTAL PRICES CLIMB ACROSS A BROAD FRONT
The very buoyant demand coupled with the restricted supply has prompted a rise in rents across a broad front. Year-on-year, the prime rent has climbed by nearly 3%, producing a new all-time high for Munich of 36.50 €/m² in the first quarter. Moreover, top and average rents in almost all office market zones have climbed, in some cases quite appreciably. This development is set to be sustained during the rest of the year.

OUTLOOK
In view of the very bright overall economic climate, all the signs from today’s angle suggest that demand in the coming quarters is likely to remain above-average. So it seems not entirely unrealistic to expect take-up for the year as a whole to set a new record. At the same time, 2017 should produce a further modest decline in vacancy.