MUNICH INVESTMENT MARKET CONTINUES TO ADD SPEED

With a transaction volume of around 2.4 bn €, the Munich investment market again achieved an exceptionally good result in the first half of the year. The comparable figure for the previous year was exceeded by 15 %, while the ten-year average was surpassed by all of 60 %. In a nationwide comparison, Munich thus takes third place behind Frankfurt and Berlin. The dynamic development is being driven by broadly based demand across all size categories and asset classes. One sign of this is that – despite the high turnover – the proportion of large deals was actually below average. So far, only three transactions have been registered in the triple-digit million-euro range. The most important deals included the sale of the office projects HIGHRISE one to Deka and Kap West to Allianz. The liveliness of market activity is also underscored by the number of recorded deals: at around 70, this is considerably above the long-term average (about 50). Portfolios included on a pro-rata basis accounted for just over 10 % of the result, which is slightly below the average level.

STRONG CONTRIBUTION BY ALL SIZE CLASSES

The broad spread of turnover across all size classes already observed last year has continued. Properties priced at between 25 and 50 m € generated the biggest proportion, with one-third of the total. In second place came sales in the 50-100 m € bracket, with just under 29 %. Major deals in the three-digit million range accounted only for 22 % and are therefore by no means as important as in other locations. Smaller transactions of up to 25 m € were also responsible for more than 16 % of the investment volume. This distribution underlines the very broad foundation of demand.

ALL ASSET CLASSES IN DEMAND

Also worthy of note is the extensive involvement of all the different asset classes. Although office properties are still the dominant form of occupancy, with a share of 46 %, they currently play an appreciably smaller role than usual when compared with the long-term average of over two-thirds. The remaining places in the ranking were hotly contested: hotels came second with 16 %, finishing marginally ahead of retail properties (15 %) and logistics complexes (14 %). This distribution also indicates the great confidence exhibited by many investors in Munich’s long-term stability and future prospects.
Investments according to location in Munich H1 2017

- City Centre: 11.8%
- Centre Fringe: 17.2%
- Subcentres: 19.3%
- Periphery: 18.5%

SUBCENTRES GAIN BIGGEST SHARE

The fact that Munich is interesting for many investors despite the shortage of supply in the central locations is also reflected by the way turnover is spread across the market area. With a share of just over 46% of the transaction volume, subcentres have taken the lead. In hardly any other city in Germany would this situation be conceivable. Munich is clearly benefiting from the very strong economy and the ongoing positive outlook for development. In second place, with about one quarter of total investment, came the peripheral locations. At just under 17%, the share obtained by the Centre Fringe is already significantly lower. What is especially notable, however, is the very low proportion generated by the City Centre precincts, with only around 12%.

BROAD SPECTRUM OF INVESTORS

In the first half of the year, the lead in the investor ranking was gained by special-purpose funds with a turnover share of 20%. Close behind, with 18%, came property developers; they secured a considerable number of older assets in order to participate in the positive development of the user and investment markets. Third place was taken by insurance companies; fuelled by the Allianz acquisition of Kap West, they contributed 14% to the result. Investment managers and listed real estate companies/REITs each accounted for slices of around 8%. At 24%, the proportion of foreign investors is slightly higher than the prior-year figure, but still relatively small by national standards.

MARKED DECLINE IN YIELDS

Due to fierce competition among investors, yields have continued to ease appreciably in the last twelve months. Since mid-2016, the prime net initial yield for office buildings has fallen by 40 basis points to 3.20%. The only more expensive location in Germany is the country’s capital, Berlin. In the case of logistics complexes, the trend was similar, with a fall of 30 basis points in the prime yield to 4.90%. Where downtown retail/office properties are concerned, the decline was noticeably lower (-5 basis points), but in this asset class the prime yield has already been very low for some time now.

MARKET DYNAMISM SET TO CONTINUE

The second half of the year can also be expected to produce a high transaction volume. Some large-scale deals are already at an advanced stage of negotiations and are due to be concluded in the coming months. In addition, Munich, like all the other locations, is benefiting from the generally positive economic environment in Germany. Against this backdrop, we expect very high investment turnover for the year as a whole. Whether the 6 bn € threshold can be crossed again, though, remains to be seen.

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