At a Glance Q3 2018

INVESTMENT MARKET MUNICH

INVESTMENT MARKET CONTINUES TO FLY HIGH

The Munich investment market continues to fly high and in parallel with the office market. With a transaction volume of 4.9 bn €, the second best result after 2007 was achieved in the first three quarters. The previous year’s result, which was already very good and also over 4 bn €, was beaten by just over 21 %. The ten-year average was also topped by almost 74 %. With this result, Munich takes second place in Germany just ahead of Berlin and behind only Frankfurt. The exceptionally good turnover was due not least to a high number of large-volume single deals. In the first nine months, 15 sales over 100 m € were registered. It is therefore no surprise that a new record was set for single sales with 4.16 bn €. Portfolio deals included on a proportionate basis account for around 15% (737 m €), which is around the long-term average. Among the biggest deals were the sale of the East Side Office and the two Correo Quartier and ATLAS properties brokered by BNP Paribas Real Estate.

HIGH SHARE FOR MAJOR TRANSACTIONS

Due to the aforementioned major deals, sales above 100 m € account for a share of just over 52 %, which is very high even by Munich standards. If the size category between 50 and 100 m € is also included, major transactions contribute around three quarters to the result. By contrast, sales in the mid-size market segment between 25 and 50 m € fell in both relative and absolute terms to just under 12 %. The same applies for smaller properties up to 10 m €, for which only a handful of sales were registered. Sales in the category between 10 and 25 m € increased on the other hand in both relative and absolute terms.

TYPES OF USE IN LINE WITH THE NATIONWIDE TREND

As in most other locations, offices contribute by far the biggest share to the transaction volume with 59 %. Taking into account the excellent office space take-up in recent years, this result is not surprising. Hotels held on to the second place they achieved in the previous year, although their relative share of just under 11 % is only half what it was. The third place on the podium is taken by retail properties with just over 7 %, ahead of logistics properties with 4 %. The relatively high share of the category others is due largely to development sites.
Investments by location in Munich Q1-3

<table>
<thead>
<tr>
<th>Location</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Centre</td>
<td>14.9</td>
<td>15.4</td>
</tr>
<tr>
<td>Centre Fringe</td>
<td>26.0</td>
<td>28.2</td>
</tr>
<tr>
<td>Subcentres</td>
<td>34.0</td>
<td></td>
</tr>
<tr>
<td>Periphery</td>
<td>22.4</td>
<td></td>
</tr>
</tbody>
</table>

Hardly any change in turnover across the market

Regarding the distribution of turnover by location in the market region, no major changes have been recorded compared to the same period of the previous year. It is pleasing to note, though, that the absolute transaction volume has increased in all sub-markets. As in the previous year, first place was taken by the Sub-centres, whose share has increased slightly to currently just over 39%. The share of the City Centre zones was again below average with just under 15%, with the inadequate supply being responsible for this. The Centre Fringe locations account for just over one quarter of the result and the share of the Periphery is once again above the long-term average with 20%. 

Very wide range of active investors

The sales turnover is also down to the fact that a lot of buyer groups have invested because they believe that the outlook for Munich is positive. Only three investor types account for double-digit shares. First place is taken by special-purpose funds with almost 17%, followed by pension funds with just over 11% and investment managers with over 10%. Larger contributions were also made by property developers (just over 9%), banks (8%), open-ended funds (7.5%) and insurance companies with just over 7%. What is particularly notable is that all other investors account for almost 30%. The share of foreign investors is 38% and therefore up on the previous two years.

Yields fall again

The strong interest of investors and the continuing limited supply have contributed to a further slight fall in yields despite the low level already reached. The net prime yield for offices fell in the third quarter by 10 basis points to currently 2.90%. This development also reflects the expectation of investors that rents will continue to rise. The prime yield for logistics properties is also lower than in the previous quarter at 4.20%. The prime yield for office buildings remains 2.90%, but may be lower in individual cases.

Net prime yields by type of property in Munich

Top result also in sight for the year as a whole

It is expected that investment markets will remain lively in the final quarter as well. Investor confidence in the Munich market remains very high. This is due not least to the tailwind provided by the user markets and should continue next year even if GDP growth slows slightly. Against this background, it is expected that turnover for the year as a whole will be over 6bn € again and will probably be the second best result of all time. It remains to be seen whether the all-time high of 2007 can be beaten and this will depend not least on the level of supply and the completion of single major deals.