



MUNICH

# MARKET REPORT

OFFICE LEASING  
AND INVESTMENT MARKET

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2018/2019



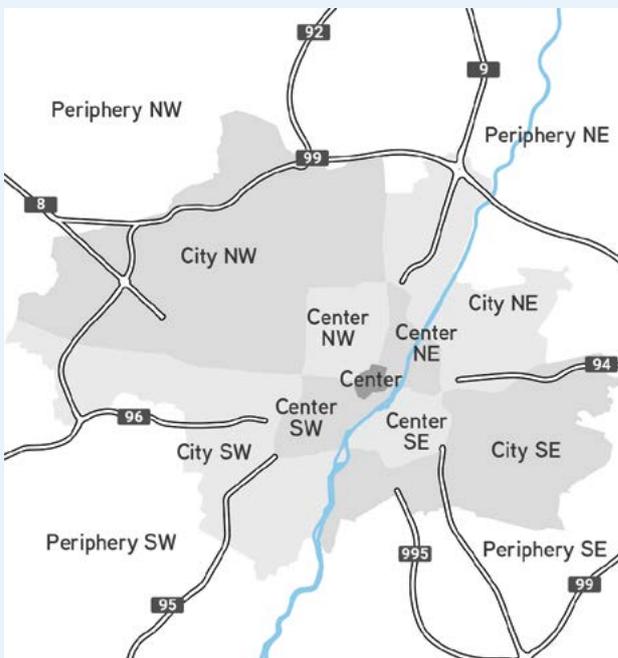


## CITY FACTS MUNICH

Population in 1,000	1,456
Employees Paying Social Security Contributions in 1,000	865
Unemployment Rate in %	3.4
Per Capita Disposable Income in €	30,004

## Fast Facts

Office Leasing Munich	2018	Change year-on-year
Office Space Take-up	979,300 sqm	-0.5 %
Leasing Take-up	944,400 sqm	20.3 %
Prime Rent	36.00 €/sqm	1.1 %
Average Rent	19.00 €/sqm	9.8 %
Vacancy Rate	1.8 %	-60 bp
Office Space Stock	22.55 million sqm	0.8 %



## Achieved Rents in €/sqm

Submarket	Prime Rent	Average Rent
Center	41.50	29.70
Center NW	36.00	25.00
Center NE	35.50	25.20
Center SE	31.00	21.40
Center SW	27.00	18.70
City NW	23.00	18.10
City NE	30.00	20.00
City SE	21.00	16.90
City SW	24.00	16.30
Periphery SW	17.70	12.50
Periphery NW	13.50	11.30
Periphery NE	16.90	13.70
Periphery SE	16.00	11.20

# OFFICE LEASING

## Take-up

The boom on the Munich office leasing market continued in 2018. Even with take-up results coming in just shy of the 1-million mark at 979,300 sqm, the city managed to post an exceptional result. Although these take-up levels are basically in line with 2017's results, take-up excluding owner-occupier activity was up 20% yoy to 944,400 sqm with owner-occupiers less active in 2018. The only time a higher result excluding owner-occupiers has been posted to date was in 2000. Major deals alone contributed 390,400 sqm to total take-up results, claiming a share of 40%. Leases signed by Wirecard (39,500 sqm in Aschheim-Dornach) and Serviceplan (38,500 sqm in Werksviertel) were the two largest leases signed in Munich over the past 10 years. The IT sector proved the most active industry, accounting for 250,400 sqm, or 26%. The manufacturing industry (132,500 sqm) and consulting firms (132,100 sqm) followed in the ranks. Leases signed for space at property

developments and under construction accounted for one third of total take-up, reflecting tenant response to the currently low availability of space on the market. Companies looking for larger-scale space are particularly finding themselves having to search for suitable office space well before their planned moving date. However, there does not appear to be a shift in leasing activity to the city outskirts. 78% of take-up was recorded within Munich city limits, just shy of the long-term average.

## Rents

Average rent rose 10% over the past 12 months to a current €19.00 per sqm. Tenants looking for space within city limits were faced with rents of €20.70 per sqm on average, a 7% increase yoy. Average rent in the city outskirts rose 16% yoy to €12.80 per sqm. Prime rents were up only moderately in comparison, posting a 1% increase yoy to a current €36.00 per sqm.

FIGURE 1: Office Space Take-up in 1,000 sqm

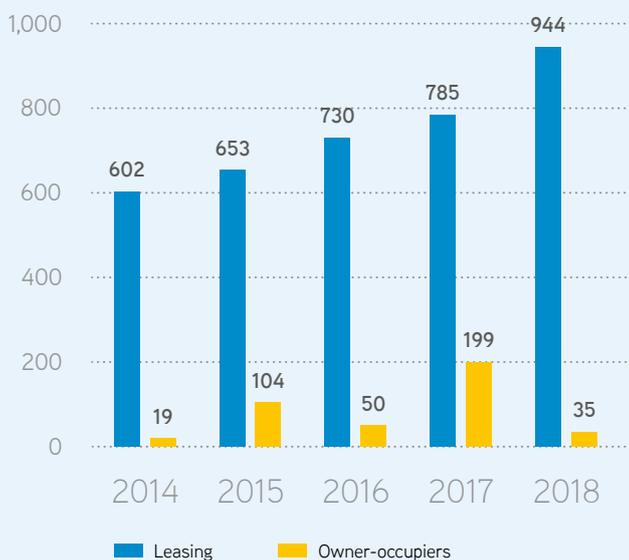
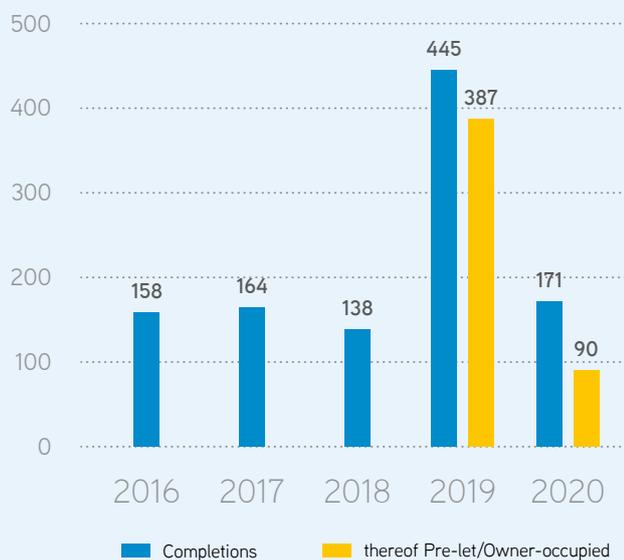


FIGURE 2: Completion Volume in 1,000 sqm



## Supply and Vacancy

410,600 sqm of office space was available for immediate tenancy at the end of 2018, 125,300 sqm less than in 2017. That puts the vacancy rate at 1.8%. The vacancy rate within city limits is even down to a low 1.3% and some areas in the city outskirts are also proving to be a landlord's market with vacancy rates of 3.2%. Just over 800,000 sqm of space is currently under construction with 76% already pre-let. The majority of the space still available at these developments, however, is not scheduled for completion until 2020.

## Key Developments

Office locations in the east of Munich are particularly experiencing an upward trend. Roughly 350,000 sqm of office space is currently under construction or being extensively renovated, including locations such as the business park on St.-Martin-Straße and Balanstraße, Werksviertel, Berg am Laim and the Bavaria Towers at Vogelweideplatz.

## Summary and Outlook

The Munich market is not only benefiting from the expansion of companies based in the city but also from the city's increasing significance on the global economic stage, which is causing a number of companies to open new offices in the Bavarian capital. In view of the slightly weaker economic performance expected for 2019, take-up will likely fall short of 2018 results. However, we can expect to see between 800,000 sqm and 850,000 sqm, a result still well above the long-term average.

FIGURE 3: Vacancy Rate in % and Vacancy in 1,000 sqm

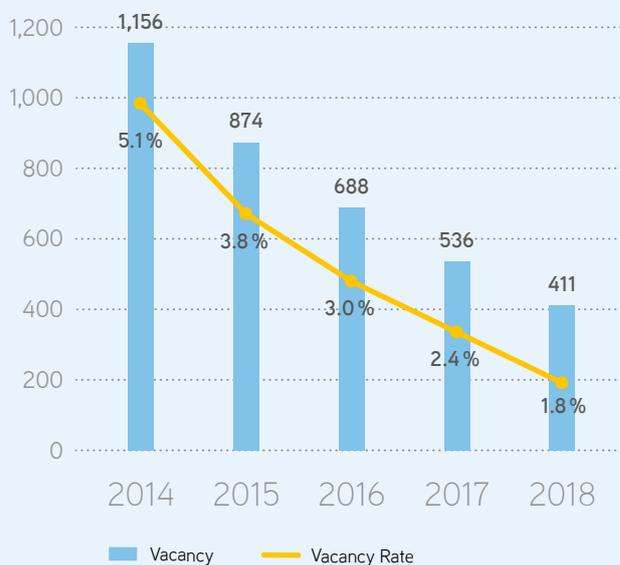
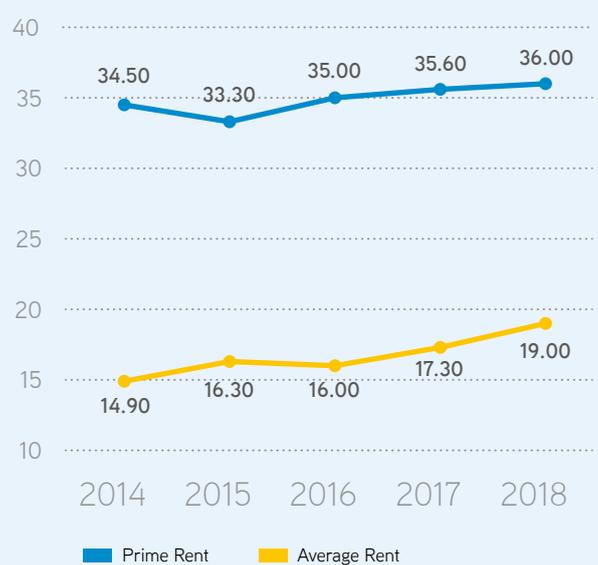


FIGURE 4: Prime and Average Rents in €/sqm



# INVESTMENT

## Transaction Volume

Commercial transaction volume on the Munich market in 2018 increased 6% yoy to €6.5bn. Q4 contributed the largest share with roughly €2.0bn. 8 major deals signed in Q4 for more than €80m each were responsible for the exceptional year-end rally. With this impressive result, the Munich market maintains its status as one of Europe's most popular locations, offering investment opportunities in a booming market environment. In addition to central locations, the city outskirts also demonstrated their ability to attract liquidity on the investment

market by generating a total transaction volume of just under €1.4bn. Ongoing high demand is being met with an increasingly diverse supply landscape with the significant increase in capital value boosting higher transaction volumes. The upward trend on the Munich market has been underway since 2010 and can be expected to continue in 2019.

## Fast Facts

Investment Munich	2018	2017
Transaction Volume	6,531 million €	6,170 million €
Portfolio Transactions	17 %	17 %
Share by International Buyers	38 %	41 %
Share by International Sellers	32 %	33 %
Most Important Property Type	Office 64 %	Office 49 %
Prime Yield Office	3.00 %	3.20 %

FIGURE 5: Transaction Volume in million €

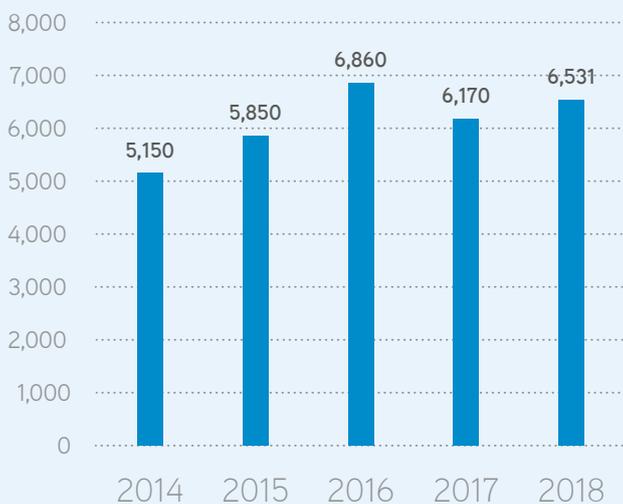
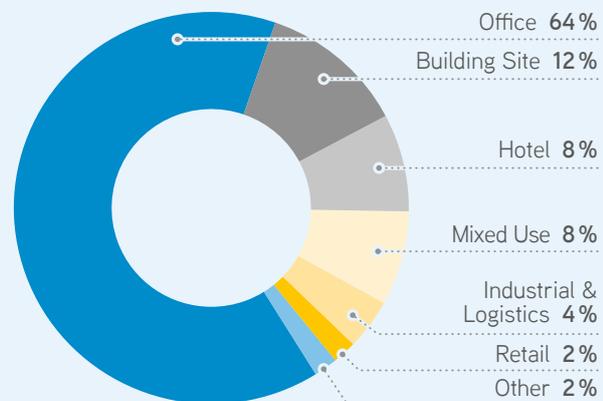


FIGURE 6: Transaction Volume by Type of Property 2018 share in %



## Supply and Demand

Office assets accounted for the majority of transaction volume with just under €4.2bn. Increasing tenant demand for office space combined with significant rises in rent levels continues to draw investor attention to this asset class. 8 of the 10 largest deals posted in 2018 involved buildings used exclusively for office (around €1.8bn combined). The year's highest-volume deals included the purchase of the OSKAR building encompassing roughly 29,000 sqm in the heart of Munich, CORREO featuring around 44,500 sqm in immediate vicinity of Munich central station and ATRIUM with around 40,000 sqm of office space in Munich-Moosach. Commercial land sites trailed at some distance, claiming 2nd place with €814m, the highest volume recorded in this segment in the past 10 years. Large-scale land site deals contributed to these exceptional results, including deals for land sites in Freiham, at Hirschgarten, along Frankfurter Ring and in the Munich city outskirts.

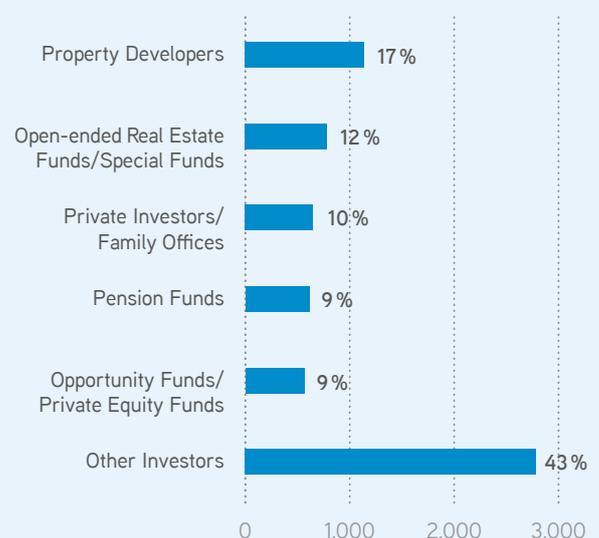
Foreign investors accounted for roughly 38% of capital invested in the Munich market. Investors from English-speaking countries again upped their activity yoy, with €807m from the US and €430m from the UK contributing significantly to total transaction volume. Asian investors, primarily from South Korea and Singapore, continued to be active as well. The purchase of the ATRIUM building by a fund under SAMSUNG Asset Management from South Korea was one of the highest-volume deals funded by Asian capital.

With new-build completion activity still low, the supply of core products remains unable to meet high investor demand. This is particularly the case for investors interested in office and industrial & logistics assets. Looking at the new-build pipeline, we do not expect the situation around these two asset classes to find any relief within the next 2 years.

**FIGURE 7: Transaction Volume by Buyer Groups**  
in million €, share in %



**FIGURE 8: Transaction Volume by Seller Groups**  
in million €, share in %



## Yields

Prime yields for office assets in Munich dropped again to 3.00% at year-end, down 20 bps yoy. Intensified competition for assets in core locations combined with limited supply continued to push prices in 2018. Investors are beginning to factor rent level increases and ongoing demand into their business plans based on the projected expansion of Munich-based companies.

Yields in other asset classes continued to fall as well. Ongoing yield compression in industrial and logistics assets is particularly pronounced. Prime yields are currently at 4.50%, reflecting a yoy decrease of 15 bps.

Increasingly more deals involving stable office assets in established city outskirts locations are posting gross initial yields of below 5.00%. It is safe to assume that the current prime yield cycle has bottomed out, even though there is a chance that yields will continue to drop in some submarkets outside core locations.

## Summary and Outlook

There are many indications that the Munich market will continue to find a place at the top of investor agendas in 2019. We expect to see more high-volume deals in Q1 with additional transactions already announced for the quarters to follow. The exceptional results on the leasing market will also trigger further asset completions during the current cycle. Munich's reputation as an international hub and strategic location for company headquarters is growing, which will make the city even more popular with foreign investors going forward. Munich continues to enjoy a stable economic foundation with a forward-thinking industry structure and a healthy mix of start-ups, SMEs and global players, all of which promotes stable economic growth. With these general conditions in place, we can expect to again see transaction volume hit over €6bn in 2019.



*High tenant demand will continue to motivate investors to pour their capital into Munich office properties.*

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