



MUNICH

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	→	→
Vacant Space	↓	→	↓
Construction Levels	↑	→	↑
Leasing Volume	→	→	→
Investment Volume (all sectors)	→		

Politicians and urban planners have lately taken a more progressive approach towards urban development. They have initiated a new study on high-rise buildings to foster intensified and higher use of land.

In addition they have defined a number of selected topics they actively want to tackle to future proof the city: digitization, mobility and climate change.

Munich's future depends on the crucial question of how the city can continue to grow and maintain the framework conditions to keep the city affordable, and secure the functionality of public transport and other types of infrastructure.

EXECUTIVE SUMMARY

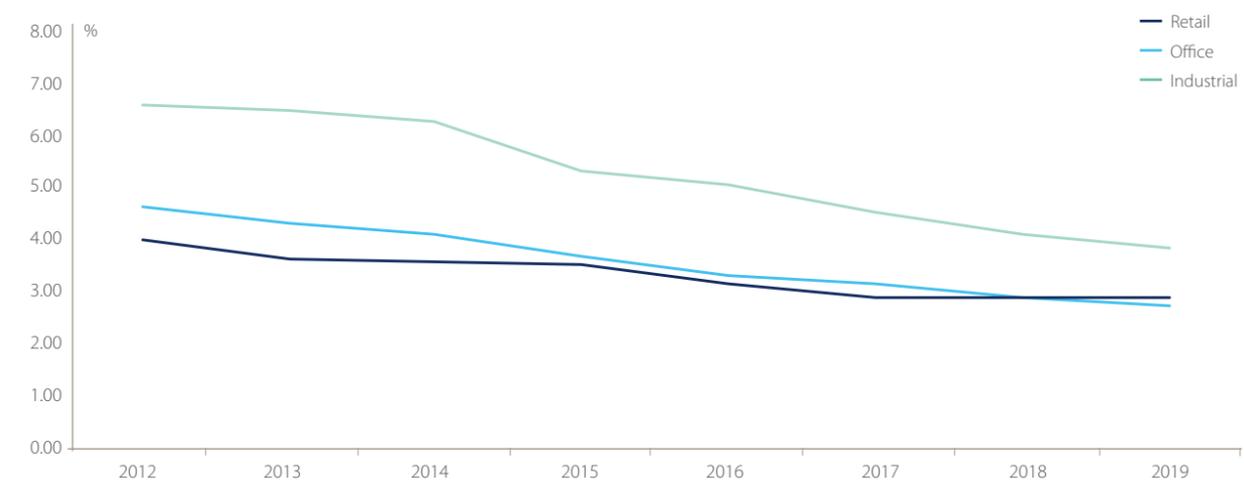
- Although the office vacancy rate was constantly below 2.3% in 2019, letting volumes were noticeably above average, pushing rents further up across all submarkets.
- The Munich investment market went through the roof in 2019, breaking the €10bn threshold, despite a lack of core product keeping prices down.
- Munich is in demand: Students, employees and companies value the city's amenities. Population growth is striking. By 2040 the number of inhabitants is set to rise from 1.5 million today to 1.85 million (+18.8%). Munich is already densely populated and is certainly one of Germany's most expensive cities to live in. The pressure is now on politics to deal with this growth, find new corridors for development and keep Munich an attractive place to live and do business.

Lack of space, urban density, capacity bottlenecks - these are some of the topics which will keep Munich busy in the next few years. The city is in demand: economically attractive, with a high quality of life and scenic surroundings it attracts students, employees and companies, both national and international. How Munich deals with the growth will determine how strongly it can assert itself in the global sphere in the coming decades.

Munich has been Germany's stellar performer over the past decade economically and real estate wise. Munich's unemployment rate has traditionally and constantly been below the German average. At the same time, economic performance has been outstanding, producing purchasing power which is unmatched by any other large German city. With the Alps next door, an extraordinary art and gastronomy scene, and an excellent university landscape, Munich is one of Germany's strongest growing cities. Since 2010, Munich's number of inhabitants rose by 137,000 people (+10.2%). More growth is projected: by 2040 an additional 350,000 inhabitants may live within the city boundaries. However, development land is limited.

The Bavarian capital is modern, yet at the same time very traditional. It was the strong belief in conserving the existing urban landscape and, most of all, the city's flat skyline which prevented higher buildings. In 2004, Munich's citizens decided that no building shall be higher than 100 metres. Although the referendum was legally binding for only one year, no developer has yet dared to top the 99 metre mark. This is likely to change in the near future.

MUNICH YIELDS



Source: Avison Young

SOME OF THE KEY TOPICS TO LOOK OUT FOR IN 2020

Urban Planning:

- Urban development plan "Perspective Munich": In open discussions, events and workshops, the City of Munich will update its plan and work on strategies to future proof Munich through discourse with the public. By October 2019 600 citizens had already participated in resp. sessions. Four more workshops are set to follow in 2020.
- High-rise development study: The findings of the latest study update will be presented in 2020. The study will define new possibilities for high-rise construction in terms of location, quality and heights.

Mobility:

- 2nd city train line (S-Bahn) trunk line: Construction is in full swing and will continue in 2020.
- Munich main station: Next steps will be taken to get the extensive renewal of Munich main station underway. In a joint effort, Deutsche Bahn, the City of Munich and the Federal State of Bavaria will redevelop the station which will include a bike station for 3,000 bikes.
- Traffic development plan: The plan will be updated with a focus on pedestrians, cyclists, public transport and environmental protection.

Digitization:

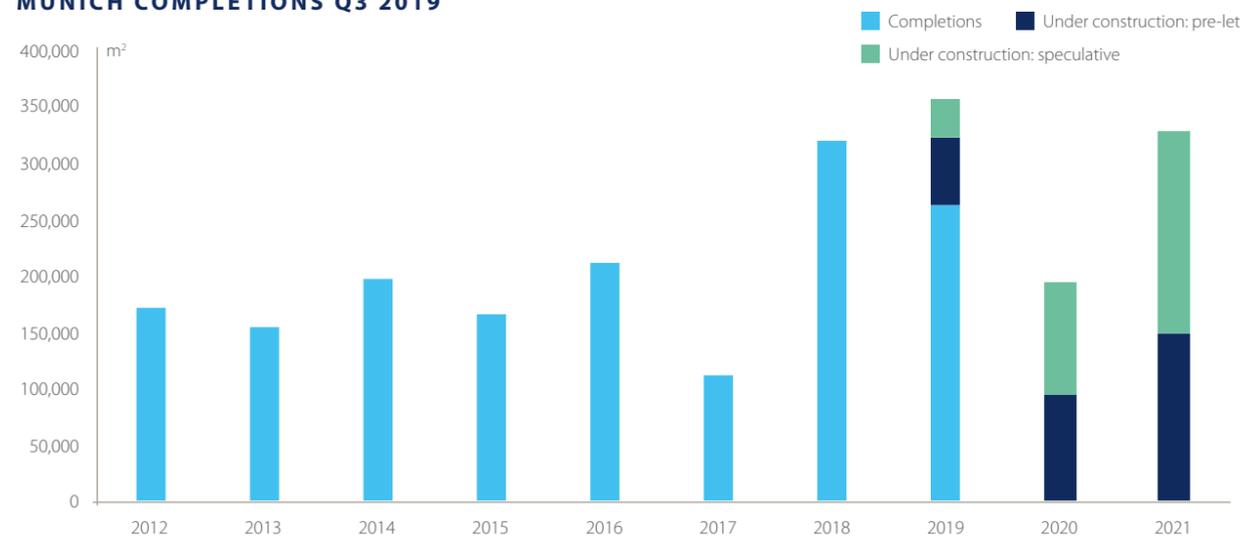
- Guidelines for active and responsible digital transformation: we expect discussion forums between the City and its citizens to continue. Topics will primarily cover the digitization of Munich's administration to make people's lives easier and how to foster Munich's position as a Smart City.

Munich's land development potential is extremely limited. Focus needs to be on the redevelopment of former railway land and manufacturing sites. Some exciting projects and corridors of growth to watch in 2020 include:

- Munich East: Between Munich East Train Station / Werksviertel and Munich Trade Fair a significant amount is happening. Major corporates have moved here, attractive new office buildings have been developed/are under construction; and manufacturing is slowly moving out. The image of this part of the city is positively changing with the development corridor offering great opportunities to realize an attractive new urban neighbourhood in Munich.
- Munich West: Former parcel-post hangar near Arnulfstraße – a mixed-use urban neighbourhood including residential, office and retail space plus cultural and social amenities is planned.
- Munich North: Construction is expected to start at Bayernkaserne in 2020. The former military site will be converted into a new city district. On 48 hectares, around 5,500 residential units for approx. 15,000 people will be built.

Urban areas such as those in the east of Munich, which previously were considered outlying or less attractive, are now seeing heightened demand resulting from improved accessibility and development potential.

MUNICH COMPLETIONS Q3 2019



Source: Avison Young

THE OFFICE LEASING MARKET

Overall some 350,000 sq.m of new office space was completed in 2019 and within the next two years some 520,000 sq.m will be delivered. All space is quickly absorbed by the market which has pushed the leasing volumes to record levels.

In 2019, leasing volumes in Munich reached record levels with around 600,000 sq.m already signed by the end of Q3. By year-end, letting volumes were tending towards the 850,000 sq.m mark. For 2020 another result above the 10-year average is expected.

Major occupiers such as Amazon and Google, who are relocating or expanding their locations in the Bavarian Capital, are further increasing the attractiveness of Munich as an office location and demand will therefore remain at a high level.

The current vacancy rate of 2.3% will certainly continue to decrease and even locations that have not received the brunt of demand so far are likely to see close to full occupancy. So in the short term, despite high levels of construction activity and site conversions, no significant relief is expected.

Upwards pressure on rents will remain and Munich's prime rent, currently around €40 per sq.m/month will continue to rise. Furthermore, we see fundamental price increases no longer exclusively in the CBD, but also in new emerging city districts. Berg am Laim is now called the "Art District" and landlords demand more than €25 per sq.m/month for new office space, whereas five years ago they had a hard time securing a tenant for €15 per sq.m/month.

Munich's high-rise study is currently being updated, presenting the question as to whether the 100m restriction will become obsolete in the near future.

COMMERCIAL INVESTMENT MARKET

The lack of vacant office space has also led to a lack of investment product. Due to the attractiveness of this economically robust market, buyer interest remains extremely high and capital is available without a limit. Accordingly, prices are rising with investment volumes continuing to reach high levels. In 2019 investment volumes were significantly underpinned by single large-volume deals such as the sale of Siemens Campus and the Tucherpark, which have lifted the 2019 year-end total well above the €10bn threshold.

In search of lower prices or the potential for yield compression, investors and project developers are taking on value-add properties or seeking land for project developments. Projects are generally sold well before completion.

Regarding the different real estate sectors, offices remain in high demand and will continue to be. Hotels are currently experiencing a boom in Munich, although there may be some initial saturation in the hotels sector next year. Logistics is also in high demand, but product supply to investors in the metropolitan area of Munich continues to be limited. Retail in Munich has also been affected by structural changes, but there is still high demand for retail parks and well positioned high street product.

Generally yields have bottomed out, although in selected areas yields may decrease further.