Investment Market Munich October 2009

From January to September about € 970 million was invested on the Munich investment market in commercial property. The volume of transactions was therefore some 38% down on the same period the previous year. Although the investment volume was considerably below the figures achieved in the boom years, an upswing in the market was observed particularly in the third quarter. Sales in the third quarter of 2009 alone were almost equally as strong as in the first and second quarter combined, with the sale of the "Lenbach Gärten" building complex for more than € 200 million making a substantial contribution to the volume of transactions. Comprising a five-star hotel and two office blocks, the complex was sold to a Munich group of private investors, and in the current year this is the largest single transaction on the Munich market. The majority of the other deals were of the order of under € 50 million. Properties in this price bracket are proving more marketable in the current phase of the market.

In the first nine months of 2009 the primary focus of investment activity was on central locations. Just under 89% of the volume of transactions was achieved in these locations. The yields obtained there were by and large in the 5.40% to 6.00% bracket, with yields in some transactions being well below 5.00%. The rest of the city represented about 10% of sales, and so far investment activity in the surrounding area has been infinitesimally small.

An analysis of the groups of buyers shows that private investors and Family Offices have been especially active in the Munich market. This group of investors accounts for roughly 45% of the transaction figures; their investment profile features long-term security and stability as well as yield aspects. They are followed at some distance behind by public property funds (about 15%), private property funds (approx. 10%) and opportunity/equity funds (about 8%).

For the next few months we are expecting even stronger commitment to commercial properties from public and private property funds and insurance companies. Some of the large insurance firms in particular have already let their intentions be known to clearly increase the property quota of their portfolios. Demand will continue to focus primarily on core properties in established business locations and locations in Munich. This is confirmed firstly by the transactions concluded to date this year and secondly by current purchase enquiries. The requirements of both transactions concluded and current purchase enquiries – for highly creditworthy tenants with long-term tenancy agreements, central location and full occupancy – are relatively quite similar. However the Munich market still has only a very manageable supply in the market segment referred to, meaning that yields and prices continue to operate on a stable level.

In our view the Munich investment market has bottomed out, given the encouraging and positive signs. Both the rise in transaction figures in the third quarter and the larger number of registered transactions indicate that the market is slowly but steadily recovering and that a return to normality is in prospect. On the basis of intensive, concrete negotiations and easier financing terms for sizeable transactions we presume that the forecast we made at the beginning of the year of between € 1.3 and € 1.5 billion of commercial investment volume can be achieved.

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