



Market Survey

OFFICE LETTING
INVESTMENT

MUNICH | JULY 2010

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PROPERTY PARTNERS



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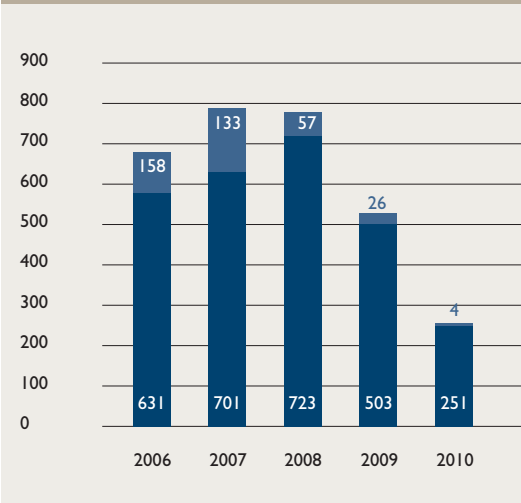
OFFICE LETTING

Turnover

The strong correlation between (office job) employment and office space turnover is undisputed. However, this correlation also occurs with a time delay, and does not directly translate into successful leases. Some areas included in the most current figures for the Munich employment district show full employment at an unemployment rate of less than three percent – the value for the entire district is at a low 4.5%.

The employment market together with 251,700 m² of net lease turnover (without owner-occupiers), and 255,900 m² office space turnover (including owner-occupiers) during the first half of 2010 seems to confirm this type of timedelayed reaction. Viewed over a five-year average (301,800 m²), the lease turnover figure calculated at the end of the second quarter indicates a drop of approx. 16%. However, based on the same period of the previous year, lease turnover only dropped by around 4%, and office space turn-over by about 5%, which is more indicative of sideways movement.

TAKE-UP OF SPACE (IN 000s m²)
LEASES / OWNER-OCCUPIER



In contrast to the same period of the previous year, there has been a change in the size of space that is listed in lease agreements. Whereas office space under 500 m² was in high demand during the first 6 months of 2009, the situation is now nearly balanced, with approx. 56,000 m² space turnover each for size classes up to 500 m², 1000 m² and up to 2000 m². All three classes form two thirds of

MUNICH STATISTICS

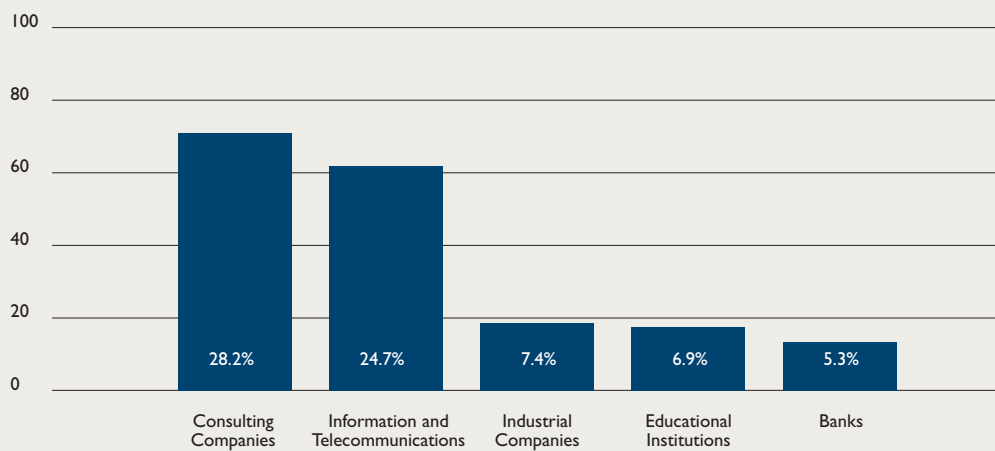
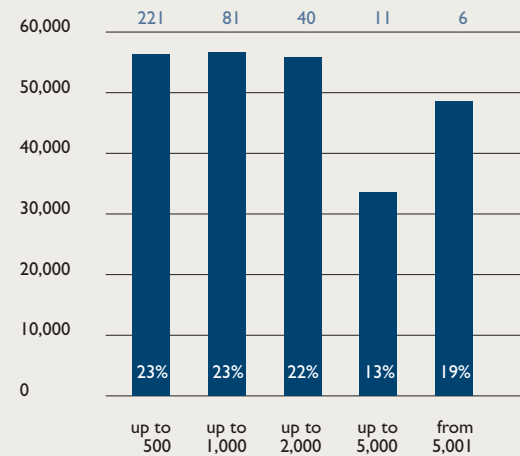
Population (as of 10/2009)	1,364,920
Unemployment rate (as of 7/2010)	4.5 %
Employees paying social security contributions (as of 3/2009)	688,820
Purchasing power index	135
Trade tax assessment rate	490 %
Gross domestic product/resident (as of 12/2007)	56,306 €

Sources: Landeshauptstadt Munich, Bundesagentur für Arbeit, MB Research, The Bavarian State Office for Statistics and Data Processing

FAST FACTS

Take-up of space	255,872 m ²
Take-up of rent	251,684 m ²
Premium rent	€ 28.00 m ²
Average rent	€ 14.19 m ²
Vacancy rate	7.9 %
Existing space (incl. environs)	22.14 M m ²



**TAKE-UP BY INDUSTRIES – TOP FIVE
(IN 000s m² EXCL. OWNER-OCCUPIERS)**

**TAKE-UP OF OFFICE SPACE BY SIZE
(IN M² EXCL. OWNER-OCCUPIERS)
AND NUMBER OF CONTRACTS**


total turnover, whereby the smallest segment with space under 500 m² makes up the bulk of this volume, at 221 of 359 registered lease agreements.

That fact that the average area per lease agreement has remained virtually unchanged as compared to 2009 indicates that in particular those parties interested in leasing larger areas have been hesitant: Scout 24 Holding

GmbH (approx. 12,000 m² in the south-eastern market area) was the only large-volume lease agreement for areas in excess of 10,000 m² that was registered for the first half of the year. The largest lease agreement in the second quarter was for Heye Group with 8,745 m² in the downtown area of Munich. This is followed with the move of Wirecard AG in the surrounding area of Munich (Aschheim-Dornach),

with approx. 7,180 m² of newly leased office space.

Lease turnover by sub-markets shows that with approx. 45 % of agreements and 55 % of total turnover, Munich downtown locations (within the Mittlere Ring) registered the most intense leasing activity as compared to other city areas and areas surrounding Munich. At the same time, an examination of individual

LOCATION		LEASE TAKE-UP	SUSTAINABLE RENTS	VACANCY (1)	SPACE POTENTIAL (2)	SUPPLY OF SPACE (3)
Centre	1	37,728	12.50 - 35.00	54,841	16,981	71,822
Centre North-West	2	26,393	10.00 - 24.00	149,423	31,328	180,751
Centre North-East	3	15,090	10.00 - 28.00	68,121	9,919	78,040
Centre South-East	4	11,610	10.00 - 15.50	144,923	30,308	175,231
Centre South-West	5	21,007	8.50 - 22.00	132,189	39,822	172,011
City North-West	6	10,687	8.00 - 15.50	99,525	23,646	123,171
City North-East	7	32,166	8.50 - 21.00	251,783	22,037	273,820
City South-East	8	20,307	7.00 - 14.50	193,531	7,604	201,135
City South-West	9	17,589	8.00 - 16.00	158,623	59,055	217,678
City		192,577		1,252,959	240,700	1,493,659
Environs South-West	10	1,248	7.00 - 13.00	14,385	20,607	34,992
Environs North-West	11	10,486	7.00 - 11.00	26,792	6,060	32,852
Environs North-East	12	39,656	6.00 - 13.00	313,659	60,094	373,753
Environs South-East	13	7,717	7.50 - 15.50	134,233	24,271	158,504
Environs		59,107		489,069	111,032	600,101
Total		251,684		1,742,028	351,732	2,093,760

1) Vacant office space: New buildings with vacant space within 3 months + existing vacant space

2) Space potential: New buildings with vacant space within 12 month + existing vacant space

3) Supply: Vacant office space + space potential

sub-markets shows the north-east surrounding area at 39,700 m² slightly ahead of the downtown (37,700 m²), and the north-east city region with approx. 32,200 m² of space turnover.

Supply and vacancies

During the first half of 2010, vacant office space for Munich and surrounding areas was 1.724 m² million, and therefore approx. 140,000 m² more than during the middle of 2009. The vacancy rate increased from 7.4 % in the first quarter of 2010 to 7.9 % at the end of the second quarter. The supply of office space has continued to increase and reached approx. 22.1 m² million for Munich and surrounding areas by the

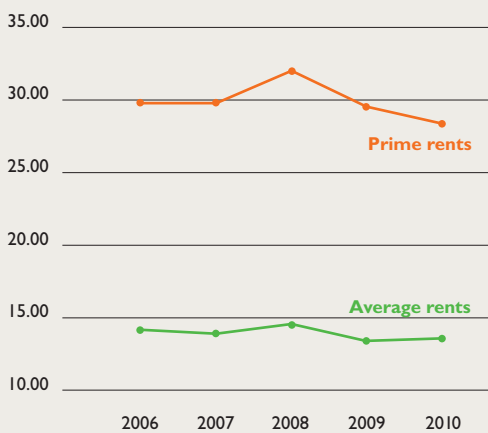
quarter. The total supply of vacant space and potential space is currently 2,093,000 m², only marginally higher than three months ago. Project development volumes will decline significantly during the next two years. Based on current information, almost 160,000 m² of new space will come on the market in 2011. More than half of this area is already occupied and will therefore not be affecting vacancy rates. In 2012, realistic development volumes will decrease to less than 55,000 m². This means that 2011 will be the end of the continuous overproduction process for office space. The cycle which follows the decline in office space turnover is therefore nearing its bottom. Once leasing activity picks up again, we may even see net absorption, based on current figures.

4 % during the second quarter of 2010 as compared to the first quarter of the same year. While this figure also represents a decline of 7 % as compared to the same period of the previous year, it must also be noted that the first half of 2009 was characterised by an overall decline in the quality of requests, which does not apply to the same extent now. Therefore it remains to be seen if and how particularly larger companies will decide with respect to their requested space. Some of them have reached an advanced stage with respect to specifying the market.

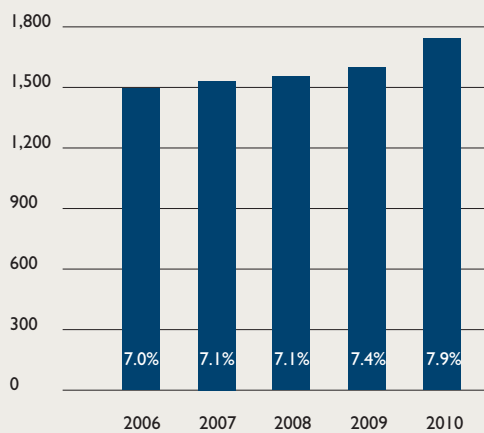
Lease prices

The average least price (weighted by area) for the entire market area declined by 20 cent/m²

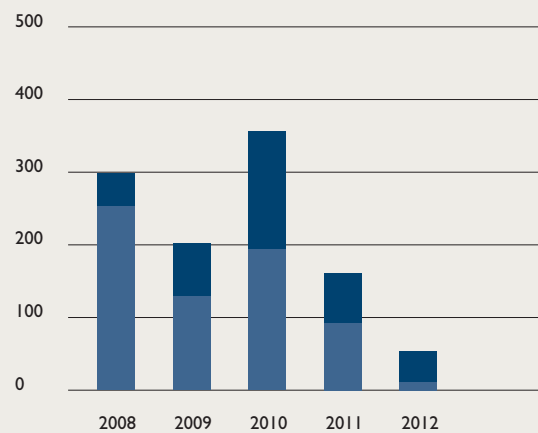
PRIME AND AVERAGE RENTS (IN €/m²/MONTH)



VACANCY (IN M m²) AND VACANCY RATE (IN %)



VOLUME OF NEW SPACE (IN 000 M²) AND PRELEASE / OWNER-OCCUPIERS



middle of 2010. The Munich office real estate market is experiencing a strong increase in available space, particularly during 2010. At around 170,000 m² of newly constructed space, the second quarter has so far been the peak of this development. Another 110,000 m² of office space will be completed in the second half of the year. The proportion of used space is already at 46 %. Fortunately, potential office space, i.e. office space that could have been occupied in the next 3-12 months, dropped to approx. 350,000 m² as compared to the previous

Demand

Two sectors have made up more than half of space turnover in the first two quarters of 2010. The strongest group with respect to demand was made up by consulting companies, with approx. 71,000 m² and 99 of 359 registered lease agreements. They were followed by companies from the information and telecommunications sector, with approx. 62,000 m² or 57 registered lease agreements. An analysis of new applications at a volume of approx. 251,000 m² shows slight growth of

compared to the previous quarter, and stood at 14.19 EUR/m² at the middle of the year. This can be interpreted as a general consequence of more available space and more intense competition between vacant properties. At the same time, it is also important to examine lease price developments in a differentiated manner, since lease prices did not develop equally in all market locations since the first quarter of 2010. It is worth noting that average lease prices in the urban area declined by 15 cent/m², but have still remained at a high level of 15.39 EUR/m². In this case,

we still observe the effects of the high prices and large areas contained in the lease agreements of two law firms. On the other hand, average lease prices in the areas surrounding Munich have increased slightly by 10 cent/m² as compared to the first quarter of 2010. This increase is explained by a variety of lease agreements which apply to newly constructed buildings, some of which were significantly above the calculated average value.

It should be noted that the comparison of lease prices with the previous year's period was strongly influenced by the large lease agreement (in terms of space) by the Deutsche Pfandbriefbank AG in Unterschleissheim. Therefore the average lease rate (weighted by area) in the first half of 2009 was 1.30 EUR lower than 12 months later.

mic growth that appears to be stable, we are expecting that lease activities will increase in the coming months. For this reason we are assuming that our forecast at the beginning of the year, namely office space turnover of up to 550,000 m², will be attained.

Because of the newly constructed space that will enter the market by the end of the year it is also probable that the vacancy will continue to increase somewhat and lease levels will decline slightly. In our view, indications for the coming year are positive. The project development cycle is nearing its bottom, since speculative building projects without significant levels of preleases are not being implemented. Of the projects which are to be completed in 2011, more than half are already leased and therefore will not have a significant

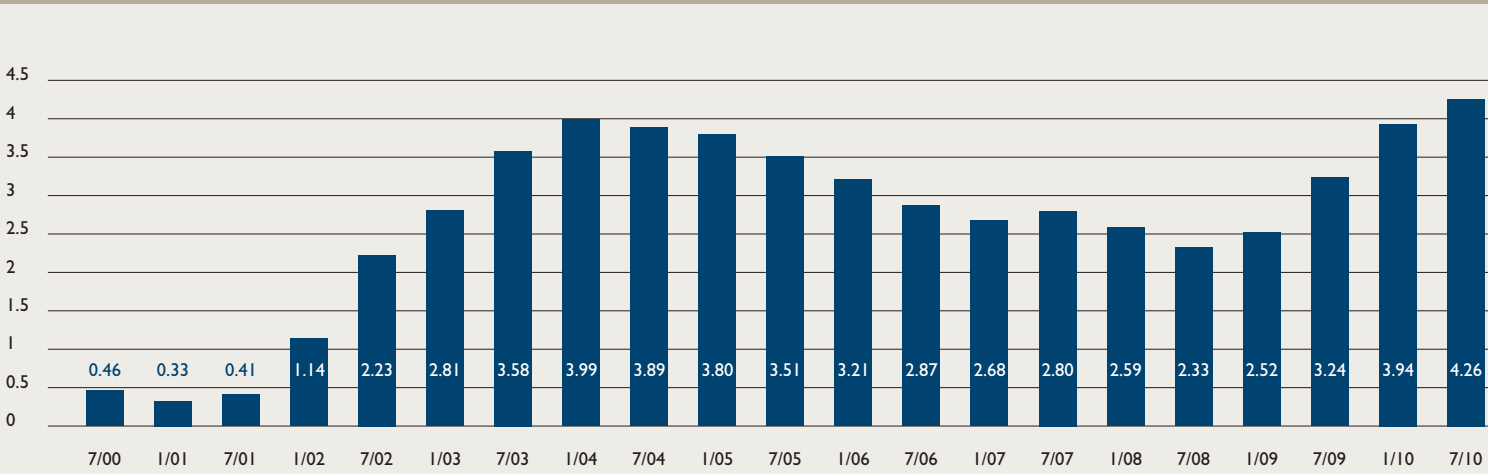
12 months. It therefore makes it possible to make a statement concerning time-comparative trends.

The supply takes into consideration both vacant space at the beginning of the year as well as the potential space, which will become available through the completion of new buildings in addition to existing space becoming vacant within a period of 12 months.

When looking at turnover, the volume of office lease take-up during the previous 12 months is included in the calculation. Office space occupied by owner-occupiers has not been taken into account.

$$\text{Immax 07/2010} = \frac{2,093,760 \text{ m}^2}{491,925 \text{ m}^2} = 4.26$$

PROPERTY INDEX IMMAX



Both average and top lease prices declined. In the previous quarter, the decline was approx. 1 EUR to currently 28.00 EUR/m². A year ago, top lease rates were still at 29.50 EUR/m².

Summary and forecast

The Munich office market is currently experiencing a sideways movement with regard to its office space turnover. It is now at a level that has been maintained for 12 months. In view of good employment figures and econo-

mic growth that appears to be stable, we are expecting that lease activities will increase in the coming months. For this reason we are assuming that our forecast at the beginning of the year, namely office space turnover of up to 550,000 m², will be attained.

PropertyIndex Immax

The Property Market Index, Immax for short, illustrates the development of the supply and demand situation on the market for office space in the Greater Munich area. The index represents the relation between the supply at a specific point in time and the completion and turnover of office space over the previous

12 months. It therefore makes it possible to make a statement concerning time-comparative trends. The supply takes into consideration both vacant space at the beginning of the year as well as the potential space, which will become available through the completion of new buildings in addition to existing space becoming vacant within a period of 12 months. When looking at turnover, the volume of office lease take-up during the previous 12 months is included in the calculation. Office space occupied by owner-occupiers has not been taken into account.



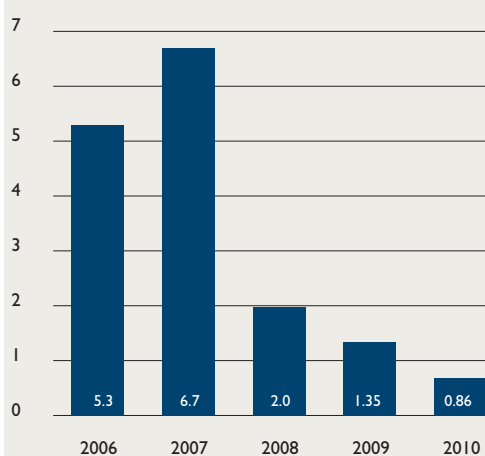
INVESTMENT

Transaction volume

Following an energetic start to the year with first quarter transaction volumes of approx. EUR 702 million, things became quieter during the second quarter of 2010, with sales volumes for commercial properties reaching EUR 167 million. Remember: The high values for the first quarter are mainly due to the sale of the Siemens Areas in Munich-Neuperlach,

Investment turnover for buildings and land parcels designated for residential use was approx. EUR 168 million after the first half year of 2010. Of these, EUR 42 million are attributed to a portfolio purchase of existing real estate by Patrizia Immobilien AG, and EUR 38 million for the purchase of the former Rodenstock Areal in Munich's Dreimühlenviertel (Isartalstraße), which was secured by Baywobau AG, for the development of a city quarter with rental and freehold apartments.

TRANSACTION VOLUME (IN BN €)



Market events were still characterised by individual transactions following the end of the first half of the year; they made up approx. 95 % of the transaction volume. At 7 transactions, or 14 % of the transaction volume, international investors also became more active participants.

Buyer and seller groups

Supported by the aforementioned large transactions, open real estate funds/special funds made up 54 % of the transaction volume, and displayed by far the most enthusiasm for investments. Almost at the same level were developers and private investors who, at EUR 102 million and EUR 107 million respectively, made up 12% of investment turnover at the end of the first six months in 2010.

On the seller side, there are pension funds, which make up 40 % of transaction volume. Here too, the sale of the Siemens Area by Siemens Pension Trust played a major role. Measured by the number of newly registered sale transactions and EUR 212 million in transaction volume, project developers made up the most active seller group. They were followed by private investors and asset managers with a sale volume of EUR 142 million, or 16 % in market share.

As a result, the picture at the end of the first six months of 2010 was a little bit different

which was sold to Hamburgische Immobilien Handlung (HIH) and co-investor (RFR-Holding GmbH) for EUR 330 million.

The total transaction volume for the first six months of 2010 – EUR 869 million – exceeded the comparative value of the previous year by EUR 367 million, or by 73 %. If we net these figures against the large transaction which took place during the first quarter, they are only minimally below the previous year's figures. In particular, this result reflects investors' hesitant attitude towards new transactions, which was especially evident during the second quarter. Worries about the stability of the Euro as a result of the Greek crisis, along with a continued conservative purchasing strategy on the part of investors, and not least the political debate about legislative changes to real estate funds are the main reasons behind the reservations displayed by investors.

FAST FACTS

Transaction volume	€ 869.3 M
Largest buyer group:	
Private Investors	54.4 %
Largest seller group:	
Pension Fund	39.9 %
Most requested type of property:	
Office	74 %
Premium yield office	4.5 %

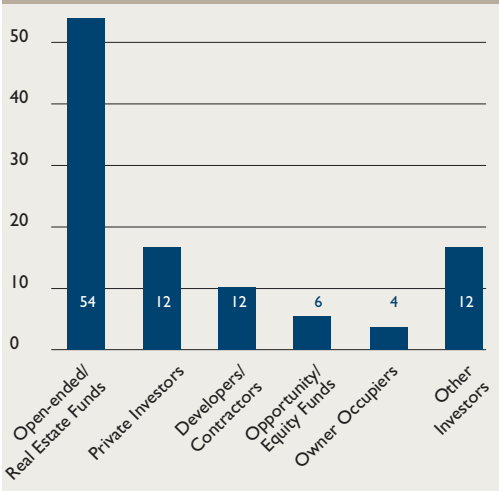
from that of the same period in 2009, and also as compared to the entire year of 2009. During those periods, the most active seller groups were mainly made up of owner-occupiers, non-properties and particularly real estate companies, whereas open funds and private investors made up the bulk of the buyer group.

In general, the market continues to be characterised by demand for core real estate; there has not been any news of opportunistic investments during the last 6 months. At the same time, there have been occasional investments in core-plus properties or properties which are not located in a top area. The purchase of a retail warehouse in the south-west of Munich for EUR 20.5 million shortly before the end of the quarter, as well as the sale

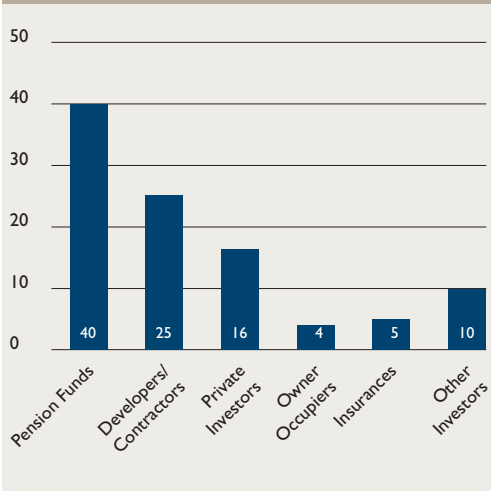
Summary and forecast

The first six months of 2010 closed with a respectable transaction volume of EUR 869 million, whereby a slowdown in investment enthusiasm was noted particularly during the second quarter. Three factors are behind this development: uncertainty surrounding the Euro, very similar purchasing strategies by investors with a low supply situation, and not

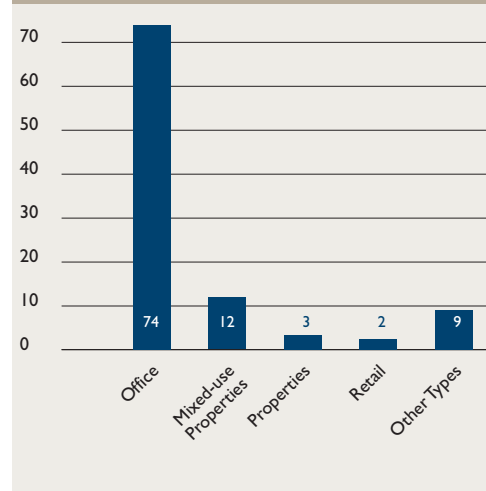
BUYERS (IN %)



SELLERS (IN %)



TYPE OF PROPERTY (IN %)



Investment objects

Even without the Siemens sale, office real estate was nevertheless the most frequently and intensely traded property class in the first half of 2010. Office properties made up almost three quarters of total transaction volume (without Siemens: 58.1%). As a result, this property category follows the trend seen in the last quarters, i.e. in the range of 67 % of transactions during the first half of 2009, and 59 % at the end of 2009. They are followed by mixed-use properties, which also contain retail or residential space in addition to office space. Investment volumes of around EUR 106 million were made in this class of property, which is equivalent to a proportion of over 12 %.

of two office and commercial properties in the north-west of Munich during the second quarter of 2010 (total value of more than EUR 22 million) are evidence that investors are increasingly willing to focus on areas which are outside of the Munich downtown area – as long as these properties can offer a corresponding quality and longterm leases to tenants with strong credit ratings.

Compared to the previous quarter, returns for investment properties are stable in the city area. Core properties in a premium downtown location still command peak returns of 4.5 %, or more than 22 times of gross annual rents. Other, established office locations can achieve returns between 5.5 % and 6.7 %.

least the political debate regarding legislative changes to real estate funds.

The comparatively stable rental market has had a positive and supporting effect on purchase decisions in the investment market. We expect that investment activities for individual transactions will pick up in the next two quarters. It is questionable whether transaction volumes in the second half of the year will be able to reach those in the first half, unless we see several larger transactions.

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