

# Market report for industrial and warehouse space in Munich, January 2010

## Turnover of space

Similar to the office letting market, the Munich property market for industrial and warehouse space had a rough time in 2009. After a subdued first six months, activity in the market became markedly livelier in the second half of the year in particular. Lettings of some 203,000 m<sup>2</sup> (letting of new premises excluding owner-occupiers and attributable office space) were about 20% down on the previous year. A total of 130 tenancy agreements were concluded, which is only about 10% fewer than in the year before. The average floor space per tenancy agreement was slightly less than in 2008, amounting to roughly 1,550 m<sup>2</sup> (2008: approx. 1,750 m<sup>2</sup>). Lettings of new buildings and projects accounted for some 19% of the letting of new premises (about 39,630 m<sup>2</sup>/10 tenancy agreements). By comparison, in 2008 roughly a quarter of turnover was generated by new buildings and projects. The strongest sub-market in terms of turnover was the north-eastern environs of Munich, with 56 tenancy agreements and some 104,640 m<sup>2</sup> rented space. The greatest demand was for space of the order of between 1,000 m<sup>2</sup> and 3,000 m<sup>2</sup>. In this category, tenancy agreements concluded represented just under 50% of turnover volume. The biggest drop recorded was in agreements for space in excess of 5,000 m<sup>2</sup>; here only 6 tenancy agreements (22.6% of the market) were signed. Companies looking for large space put off their decisions on renting in 2009 and gave prime importance to optimising the use of their existing space and capacity for orders on their books.

## Demand

The group showing the most demand in 2009 was that of trading companies with a letting volume of about 70,300 m<sup>2</sup> (34%), followed by logistics service providers with 49,800 m<sup>2</sup> (25%) and companies in the industry and production sector with 20,700 m<sup>2</sup> (10%). In general, demand for industrial and warehouse space was subject to fluctuations in 2009. Whereas in January and February there was still strong demand in evidence, from March to August firms put their enquiries and thoughts of moving almost completely on hold. From the summer onwards there was a palpable pick-up in demand again. While enquiries for large space (> 5,000m<sup>2</sup>) were in short supply in the first nine months, from early October on several enquiries of this type were registered again. Demand was primarily for inexpensive and attractive rented floor space in the area around Munich. There was also particularly strong interest in production and warehouse space in the Munich urban area. Here, as in the surroundings of Munich, the most important factor was a reasonable rent.

## Supply

At the end of the year some 71,000 m<sup>2</sup> of the latest generation of logistics space was available in the short term (December 2008: approx. 33,000 m<sup>2</sup>). There are still concrete plans for more space with a total volume of about 72,000 m<sup>2</sup>, but in 2010 too they are not expected to be implemented without pre-letting. There is existing marketable property in practically every size and location. However, there is only a limited supply of continuous space covering more than 5,000 m<sup>2</sup>, meaning that there is likely to still be a backlog of demand in the medium term. The largest supply of space available in the short term as regards sub-markets is currently in the north-western environs of Munich. It is there that the best value for money is to be found.

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IMMOBILIEN-KONTOR  
SCHAUER & SCHÖLL GMBH

Pettenkoferstr. 22, D - 80336 München  
Postfach 151812, 80050 München  
Telefon +49 (0) 89-62 42 94-0  
Telefax +49 (0) 89-62 42 94-10  
Email: info@colliers-schauer.de  
Internet: www.colliers.com

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## Rents

Depending on the location, the top rents for new logistics space continue to be around the 5.65 – 6.50 €/m<sup>2</sup> mark. The average rent in the urban area is 6.12 €/m<sup>2</sup> and in the environs of Munich 5.30 €/m<sup>2</sup>. Whereas this has remained by and large the same in the urban area as in the previous year (-2.9%), it has however clearly dropped in the environs (-9%). This is due to numerous lettings in the older building stock, some for under 4.00 €/m<sup>2</sup>. Also responsible was the lean spell for lettings in the first six months, which resulted in owners giving more and more price concessions. Simple warehouses are being let for 4.00 – 5.00 €/m<sup>2</sup>, rents achieved for production space are between 5.90 and 7.00 €/m<sup>2</sup>. The actual rents achieved in both cases are about 3 – 5% below the figures mentioned.

## Summary and forecast

All in all, the financial and economic crisis had a less severe impact on the Munich industrial and warehouse market than had been feared in the first six months. The letting market stabilised from the second half of the year and finished 2009 with a satisfactory result. Rents settled down at the present level and are stable. Owners that kept in line with the market rent level and managed to react quickly and adapt flexibly to the state of the market showed good results from lettings. Given current demand, a slight rise in lettings is to be expected again in 2010. Rents will be held at the 2009 level.

Munich, 31<sup>st</sup> December 2009