Market Report for Industrial and Warehouse Space in Munich January 2009

Turnover
2008 showed itself unaffected by the economic crisis, generating an approx. lease turnover of 256,000 sqm in industrial and warehouse space and a total of 146 concluded lease agreements. Nonetheless, towards year end the quarterly turnover clearly weakened. Particularly due to large scale lease agreements in the first half of the year, prior year results were yet again increased by approx. 3.8 % (2007: 246,300 sqm). However, new construction and project letting increased by over 30 % and notes a total market share of nearly 25 % (62,400 sqm, 18 lease agreements). As in previous years, more than two thirds of the total turnover was recorded in northeast and northwest environs Munich.

Demand
In retrospect demand was at a high all year. Particularly in the past two months demand for large scale rental space increased again considerably. At year end several inquiries in the 5,000 to 10,000 sqm space category are on the market. According to space take-up, the majority of demand concentrates in the northeast and northwest environs Munich and in the predominantly industrial and commercial parts of town. For both of the main inquiry groups (trade and logistics service rendering firms) new logistic space (>10 m UKB, 1-2 docks/1,000 sqm, modern sprinkler and heating systems) is still the only sustainably utilizable product.

Supply
Space supply clearly decreased throughout the year. Although at year end roughly 161,000 sqm of new logistic space are available on the market, only approx. 33,000 sqm are available short-term, meaning within three months. Larger category rental units (> 5,000 sqm) can only be found in the vicinity of the airport and along highway A8. Another approx. 53,000 sqm of logistic space are under construction in the north and northwest regions and another approx. 74,000 sqm are in provisional planning.

Rent Price
Despite the financial and economic crisis, lease rates for industrial and warehousing space are at a continuously stable level in Munich. In 2008 an average of 6.30 €/sqm/mth (+2.2 % in comparison to 2007) was paid within the city limits and 5.80 €/sqm/mth (+1.2 %) in the surrounding area. The top lease rate for modern logistic space is at 5.75 € to 6.50 €/mth depending on the location, and therefore unchanged. Production and service space in and around Munich ranges from 5.00 to 8.50 €/sqm/mth.

Conclusion and Prognosis
Overall long time stability confirmed itself on the Munich industrial and warehousing real estate markets. In the first half of 2009 further large scale rental agreements will be concluded due to high demand. A short-term drop in the lease market is consequently not to be expected. The offer situation is likely to change in the first half of 2009; based on the economic development, particularly in the automobile industry, vacancies will increase until mid year. This is already reflected in statements made by individual users today, to not further conduct business in one location or another. However, these will first and foremost affect older existing properties, which do not meet today's logistic requirements by tenants. A surplus of new space is not to be expected in the Munich area. Because of the likely increase in supply of older existing properties, the average lease rate will drop during the coming year. Where top lease rates for new space are concerned, noteworthy changes are not underway short-term.

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