



SZ-TOWER

Market Survey

OFFICE LETTING
INVESTMENT

MUNICH | JANUARY 2009

COLLIERS
PROPERTY PARTNERS



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Süddeutsche publishing company's corporate headquarters; a real estate property of Prime Office AG

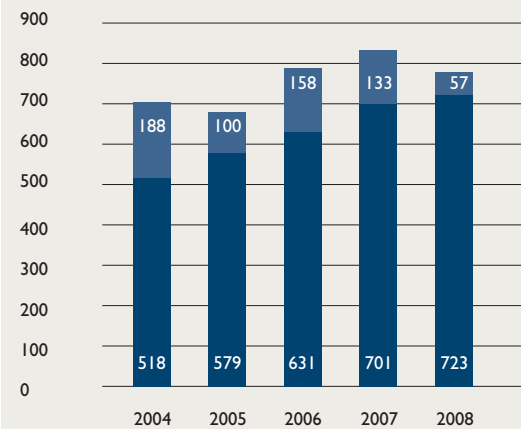
OFFICE LETS

Turnover

Despite increasingly dreary economic signs, which did not spare Munich, the year 2008 was yet another vividly active office letting year. Admittedly in comparison to 2007 the overall space turnover declined by approx. 6.4 % to approx. 780,200 sqm. The detailed view indicates a different picture, since the net lease turnover, without taking into consideration owner-occupiers, increased in comparison to the prior year. Overall companies leased approx. 722,600 sqm of new office space, a slight increase of approx. 3.1 % in comparison to the year 2007. Our prognosis at the beginning of the year for 700,000 sqm in lease turnover was surpassed marginally. Owner-occupiers recorded a decrease in space turnover of approx. 56.6 % to approx. 57,600 sqm. 986 tenancy agreements were concluded in 2008 which is an increase of approx. 14.7 % compared to the prior year.

In the category for space exceeding 5,000 sqm approx. 170,700 sqm less office space was let,

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



which is an approximate decrease of about 18.8 % compared to the year 2007. This was more than compensated by especially the size categories for space up to 500 sqm and 2,001 to 5,000 sqm. Two thirds of the lease agreements were concluded in the size category up to 500 sqm and with a lease turnover of approx. 171,100 sqm surpassed even the result

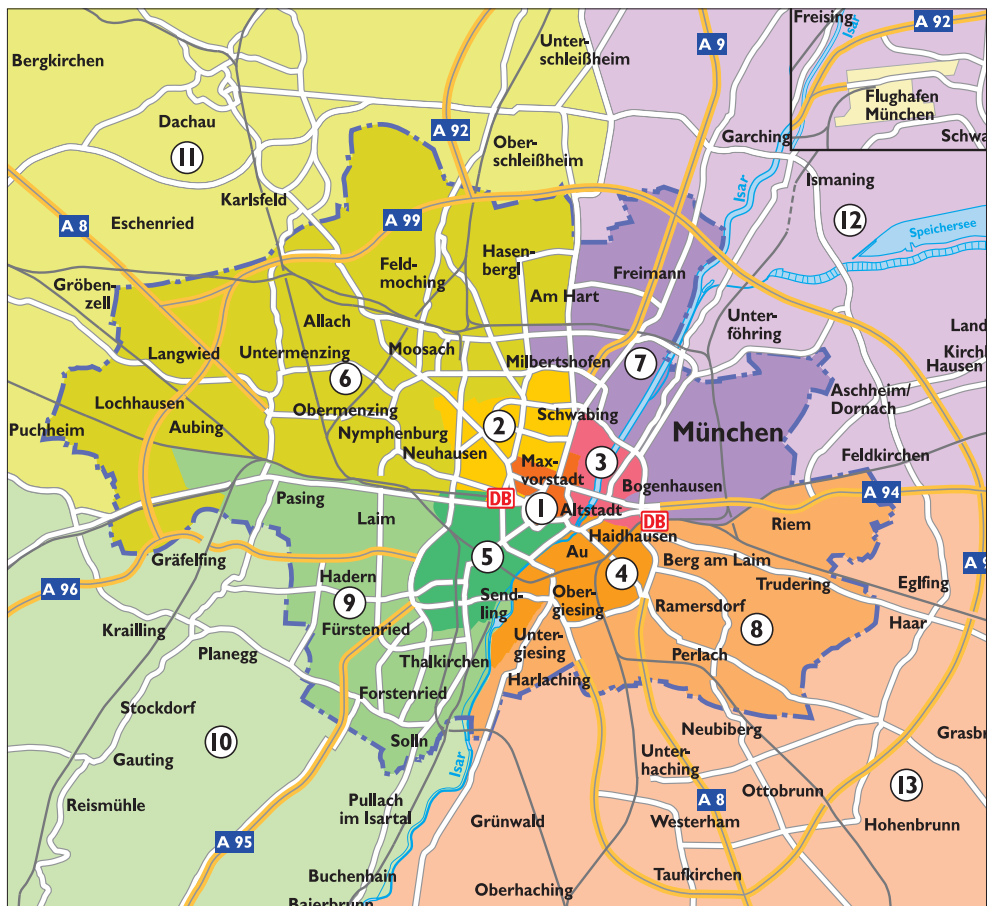
MUNICH STATISTICS

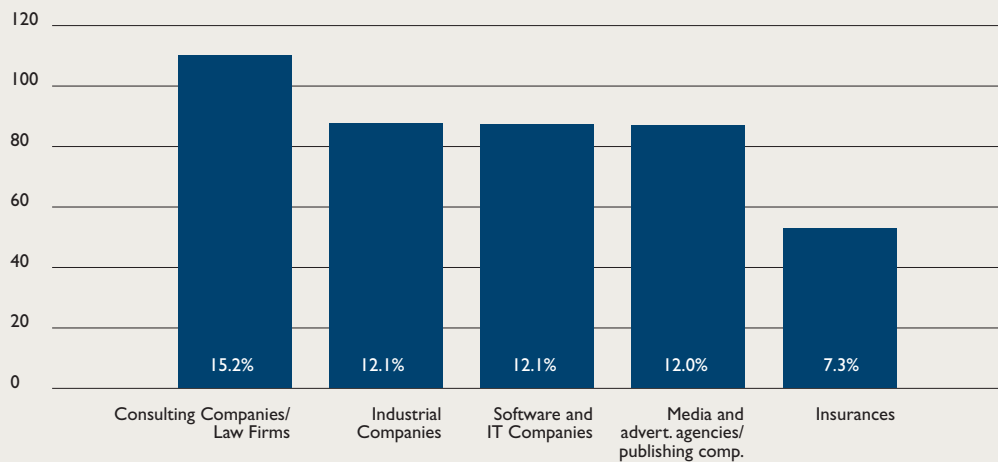
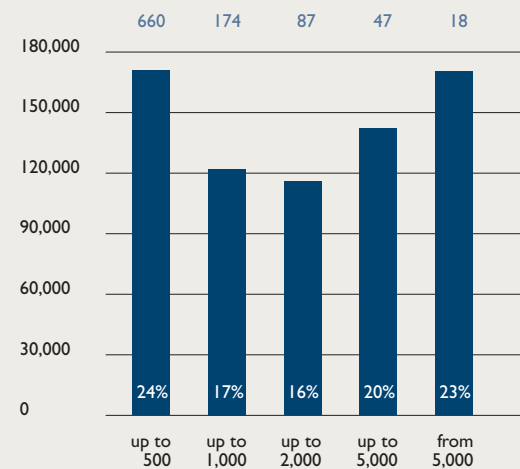
Population (as of 10/2008)	1,365,052
Unemployment rate (as of 12/2008)	4.3 %
Employees paying social security contributions (as of 3/2008)	686,701
Purchasing power index 2008	138.7
Trade tax assessment rate	490 %
Gross domestic product/resident (as of 12/2006)	54,589 €

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

FAST FACTS

Take-up of space	780,215 sqm
Take-up of rent	722,586 sqm
Premium rent	31.90 €/sqm/mth.
Average rent	14.33 €/sqm/mth.
Vacancy rate	7.1 %
Existing space (incl. environs)	21.74 M sqm



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

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


of the greater space category. Particularly in the 2,001 to 5,000 sqm size category, which accounts for 47 concluded tenancy agreements and a lease volume of approx. 142,600 sqm, the economic up-swing of the past years is still noticeable, since companies of this size generally have a twelve month forerun when looking for office space.

Downtown locations make up for half of the office space let. In 2008 most office space was let (approx. 118,300 sqm) in the submarket Centre North West (Arnulfpark/Nymphenburg) partially due to large scale lease agreements concluded by Schulreferat (19,000 sqm) and PricewaterhouseCoopers (15,100 sqm). The airport axis (Environs

North-East) followed in second place with approx. 103,700 sqm of lease turnover.

LOCATION		LEASE TAKE-UP	SUSTAINABLE RENTS	VACANCY (1)	SPACE POTENTIAL (2)	SUPPLY OF SPACE (3)
Centre	1	61,509	13.00 - 38.00	43,102	12,375	55,477
Centre North-West	2	118,266	11.00 - 24.00	115,004	25,648	140,652
Centre North-East	3	35,477	11.00 - 27.00	25,337	36,386	61,723
Centre South-East	4	55,122	8.50 - 15.00	224,067	3,663	227,730
Centre South-West	5	77,685	10.00 - 19.00	95,383	30,078	125,461
City North-West	6	26,520	9.50 - 15.50	106,598	1,360	107,958
City North-East	7	49,581	8.50 - 21.00	153,448	53,536	206,984
City South-East	8	56,648	7.50 - 15.50	196,877	21,829	218,706
City South-West	9	67,002	7.00 - 16.00	129,586	18,404	147,990
City		547,810		1,089,402	203,279	1,292,681
Environs South-West	10	30,850	8.00 - 13.00	16,893	2,416	19,309
Environs North-West	11	15,232	6.50 - 12.50	40,690	3,275	43,965
Environs North-East	12	103,675	6.00 - 12.50	310,719	30,736	341,455
Environs South-East	13	25,019	7.00 - 13.00	95,894	27,810	123,704
Environs		174,776		464,196	64,237	528,433
Total		722,586		1,553,598	267,516	1,821,114

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

Supply and vacancies

At the end of 2008 approx. 1.554 million sqm of office space were vacant in Munich and its surrounding areas and therefore approx. 23,800 sqm more than at the end of 2007. The vacancy rate remains, however, at the prior year result of 7.1 % based on the considerable number of completions and in turn greater space inventory of approx. 21.7 million sqm in 2008. The high lease turnover therefore did not result in a vacancy reduction. According to present knowledge, approx. 612,000 sqm of office space will be completed in the next two years, of which almost half is already let or owner occupied. With an average yearly lease performance of approx. 202,600 sqm in new construction and pro-

Demand

In 2008 consultancy firms and lawyers were the most active sectors in the Munich office market with a leasing volume of approx. 110,000 sqm and 186 concluded tenancy agreements, followed by the nearly at par industrial firms (approx. 87,400 sqm), the computer and IT firms which were still top-rated in 2007 (approx. 87,000 sqm) and the media and advertisement sectors as well as publishers (approx. 86,900 sqm).

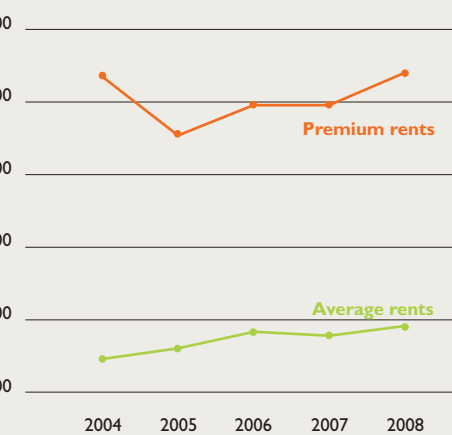
The bank and financial service providers achieved a lease turnover of approx. 49,800 sqm and therefore a value which has been slightly higher than the average since the year 2000. Including owner-occupiers the second

above average, a change in terms of the quality of inquiries is noticeable. A larger amount of inquiries is not expressive. It is ascertainable that insecurities based on economic trends led to a reduction or deferral of lease decisions concerning several very specific inquiries.

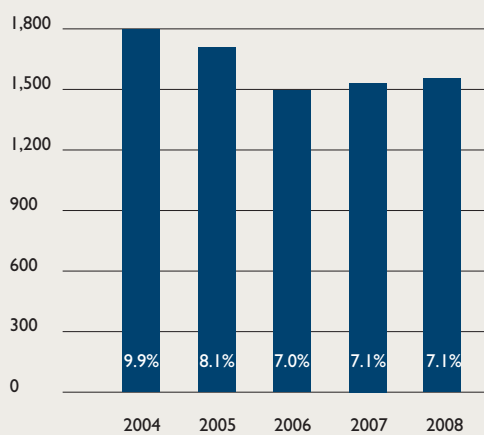
Lease Prices

The sustainable prime lease rate at year end was at 31.90 €/sqm/mth due to various high priced and large scale tenancy agreement conclusions and therefore approx. 6.3 % higher than the year end value in 2007. Absolute prime lease rates were at up to

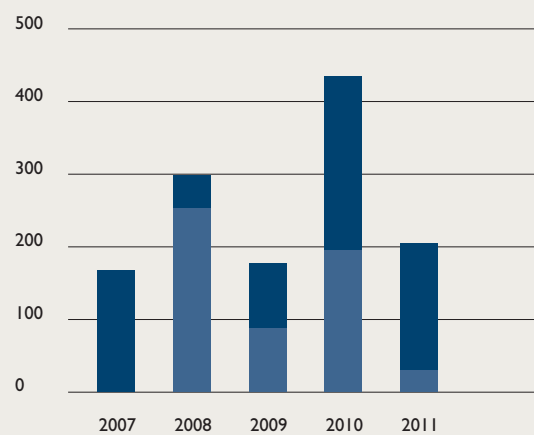
PREMIUM AND AVERAGE RENTS (IN €/SQM/MTH)



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



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



jects in the past five years and as similar numbers approach, we assume an unnoteworthy overproduction of new office space.

If vacancies and consequently office space which becomes available for tenant occupancy during the next three months, such as space potential, meaning office space which will be ready for tenant occupancy during the next three to twelve months, are being added, this results in an overall supply of currently approx. 1.821 million sqm and is therefore at the previous year's level.

highest space turnover since 2000 was achieved.

Even if this appears to be surprising with regards to the financial and credit market crisis as well as the continuing worldwide recession debates, new inquiry volumes in both halves of the year 2008 were nearly level with over 450,000 sqm. It might be astonishing that the fourth quarter with an inquiry volume of nearly 200,000 sqm was not the weakest inquiry quarter in 2008. However despite the amount of new inquiries which is still far

40,00 €/sqm/mth for exclusive office space in central downtown locations during the fourth quarter. Due to this fact the average lease price increased in downtown Munich this year to slightly over 24.00 €/sqm/mth, which is a clear increase of approx. 21.0 % in comparison to the prior year.

Within the Munich city limits 15.66 €/sqm /mth is currently being paid on average, resulting in a slight increase of 0.5 % in comparison to 2007. In the surrounding areas less project and new construction lettings

were recorded in 2008, which is why the average lease rate of currently 10.14 €/sqm/mth is approx. 7.5 % below the prior year value.

Conclusion and Prognosis

The Munich office market is looking back on a very good year in 2008 with results slightly above expectations. The lease turnover once again increased, the lease rate level is overall slightly higher than in the prior year, the inquiry volume for new office space is still above average towards the end of the year and the project development volume is by far not as considerable as during the end of the last boom phase during 2000 and 2001.

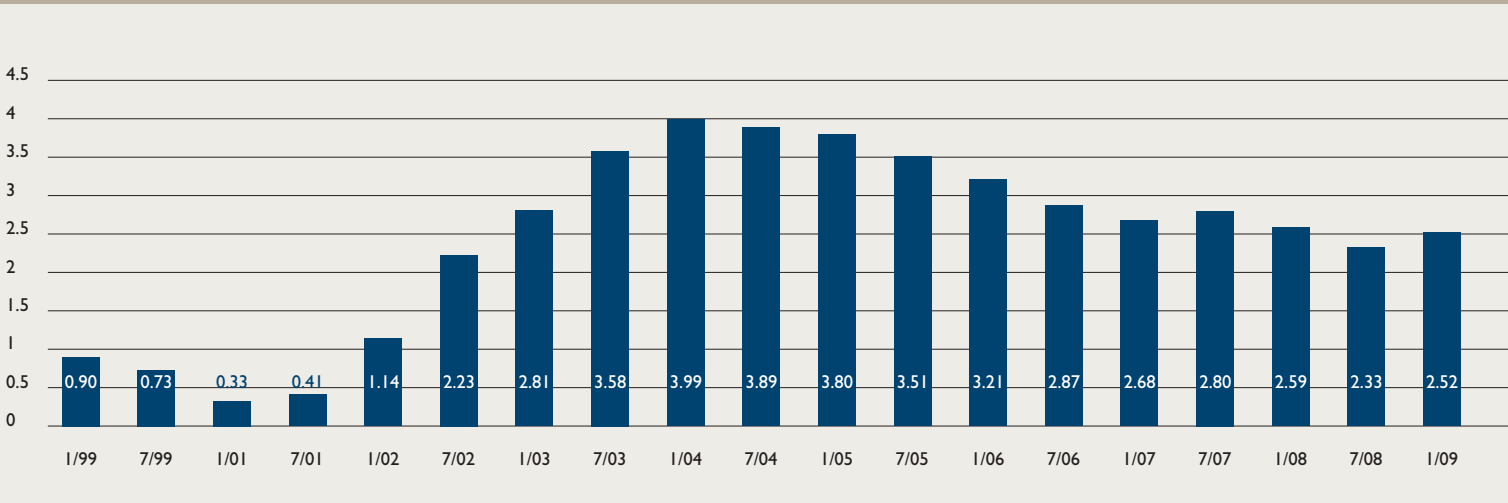
the lease turnover in 2009 to reach approx. 550,000 to 570,000 sqm (excluding owner-occupiers) and therefore around 25 % below the prior year result. A similar large amount of high priced tenancy agreement conclusions as in 2008 are not expected in 2009. As a result prime and average lease rates will stagnate or decrease respectively. Particularly when competition is at a high for space an increase in incentives can be expected.

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.

$$Immax\ 01/2009 = \frac{1,821,114\ m^2}{722,586\ m^2} = 2.52$$

PROPERTY INDEX IMMAX



Nonetheless with regards to the insecure economic view several already negotiated tenancy agreement conclusions were postponed or not acted upon. The high lease rate did not compensate for the new construction space increase either.

Overall Munich’s office market is facing a difficult year in 2009. Neither the extent nor the duration of the economic downturn in Germany can be foreseen. According to present knowledge we can expect virtually all economic sectors to be affected. We expect

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.

Although at 2.52 the PropertyIndex Immax noted higher than at mid year, it is only slightly below the prior year level in annual comparison. This is substantiated by the higher lease turnover with a nearly constant property turnover in comparison to the previous year. Particularly because of the anticipated inquiry decrease in the lease market as well as a rising space supply due to new completions, we are expecting an increase in the PropertyIndex for 2009.



INVESTMENT

Transaction Volume

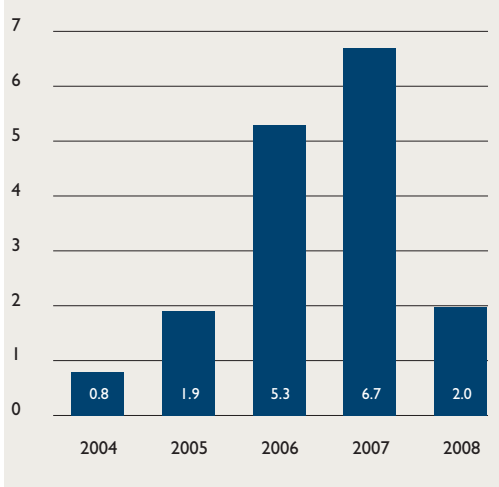
In 2008 the transaction volume generated on the Munich commercial investment market reached slightly above 2.0 billion €. Though this was the third best result ever recorded, a comparison to the prior year (6.7 billion €) shows an investment volume decrease of 70 %. While during the first half of the year comparatively many transactions were con-

In comparison to the prior year, shares of portfolio sales clearly decreased in transaction volume. In 2007 approx. 45 % of the investment volume was still accounted for by portfolio sales, in 2008 merely 22 %.

Buyer and Seller Groups

In 2008 six buyer groups invested over 200 million € in commercial properties in Munich. With an investment volume of nearly 266 million € open real estate funds were slightly in the lead, closely followed by real estate developers and contractors with an approx. 263 million € transaction volume and closed and/or special real estate funds with nearly 257 million €. Due to the Karstadt portfolio purchase, miscellaneous investors respectively real estate companies are represented in the top bracket with approx. 245 million €. Private investors contributed with approx. 220 million € to the transaction value in 2008. The opportunity/ equity funds, which were still very active last year, were considerably more modest in 2008 and noted an approx. 202 million € investment volume.

TRANSACTION VOLUME (IN BN €)



cluded, a market activity regression was noted particularly towards the end of the year. The insecurity of investors worldwide due to the increasingly serious financial market and economic crisis as well as the reluctance of banks to finance real estate were and still are noticeable on Munich's office market, despite the still heavy leasing activity.

Central locations and particularly city center areas accounted for nearly half the transaction volume in 2008. Aside from Karstadt department stores which are situated in this area and other transactions, the sale of the Hypo Real Estate headquarters as well as the Angerblocks and Alten Hof's contributed above all to noteworthy investment turnovers. However speculative investments such as in Arnulfpark and at Theresienhöhe were acquired as well in 2008.

Real estate developers and contractors with approx. 808 million € as well as non-property companies with approx. 564 million € in sale volume were by far the most active sellers in the Munich real estate market in 2008. The sale of the MIRA shopping center Munich Nordheide was concluded by a real estate developer in the first half of the year and was the largest single deal in 2008. The largest share of the sales volume of non-property companies was accounted for by Arcandor AG with the sale of Karstadt department stores. Private investors with approx. 164 million €, opportunity/ equity funds with approx. 151 million € and banks with approx. 103 million € still note a turnover in the hundred million range.

FAST FACTS

Transaction volume	€ 2.01 BN
Largest buyer group:	
Property companies	13.2 %
Largest seller group:	
Project developer	40.2 %
Most requested type of property:	
Retail	39.9 %
Premium yield office	4.75 %

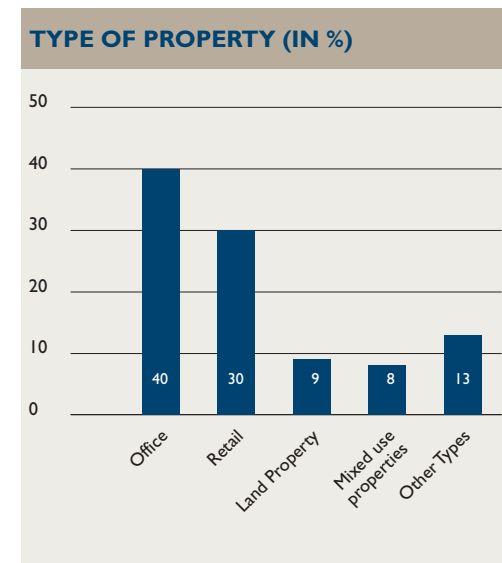
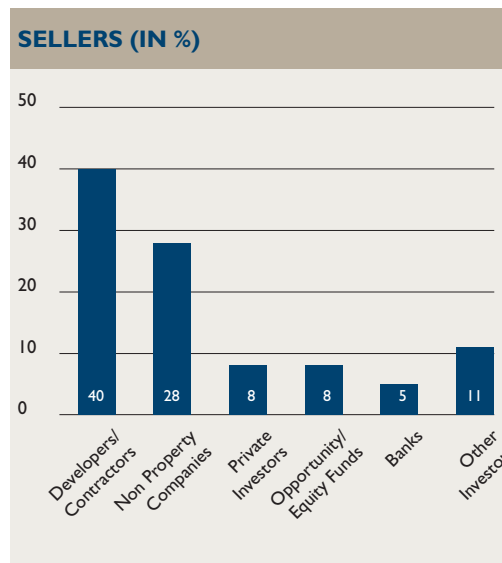
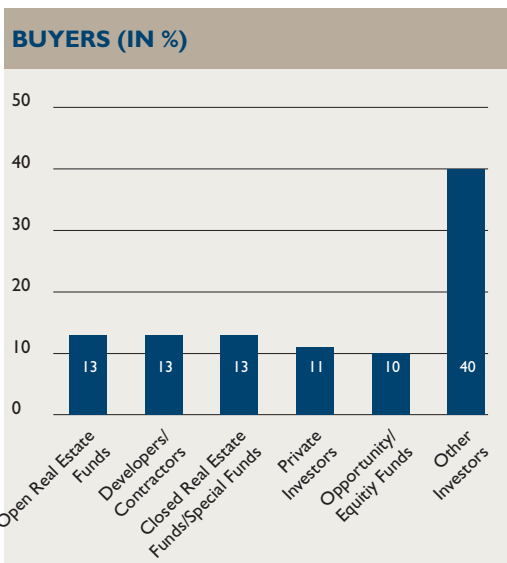
While in the preceding year approx. 74 % of the transaction volume was still generated by foreign buyers, their share shrunk to nearly one third in 2008. The domestic seller ratio is at nearly 86 % and at the same year end level as last year.

between 5.5 and 6.25 % is currently applied as a steady value. In 2008 overall purchase price factors dropped roughly one annual rent on average compared to 2006 and 2007.

While in 2006 and 2007 investors saw greater opportunity with value-add products in secondary locations or with vacancies and

Conclusion and Prognosis

Real estate investors who are currently active on the global and European markets are primarily looking for investments in a relatively stable economic and therefore secure environment. This is why investors focus more closely on Germany and in particular the economic centers, despite all economic forecasts. Munich based on its diversified



Investment Properties

Based on the transaction volume, retail space was the investment property highest in demand in the first half of 2008. At year end, as well as in the prior year, the highest share of investment volume was accounted for by office space. Nearly 801 million €, which represents approx. 40 % of the entire transaction volume, was invested in office space in 2008, approx. 607 million € or a good 30 % in retail properties. Noteworthy transaction volumes were also recorded by land property (187 million €) and mixed use commercial property investments (159 million €).

The return on office property in Munich only shows a marginal increase in comparison to other investment markets. Top yield for prime property is currently at 4.75 %. In established office locations a yield range

therefore honored this with purchase price incentives. Today the risk for this kind of product is rated higher and significant purchase price reductions are being granted. Not affected are first-class properties in prime locations as well as such with high occupancy and sustainable cash flow.

Overall the potentially available real estate supply increased over the past months. The expectations of buyers and sellers are currently not yet aligned; this clearly limits the market activity.

economic and industrial structure as well as being the third largest European office market ranks as one of the most significant real estate investment markets. In 2009 we therefore expect a transaction volume of 1.3 to 1.5 billion €, even though at the moment it cannot be foreseen as to how strong of an impact the economic crisis will have on the Munich real estate market. At the same time off-market transactions are likely to increase.

Distinctions in investment behavior will be noticeable in the different product groups. The expectations between sellers and buyers in the value-add sector will continue to adjust. In the core sector, however, only slight adjustments are to be expected. All in all it can be assumed that because of these market mechanisms still being in motion, the first half of 2009 will turn out weaker than the second half.

**Immobilien-Kontor
Schauer & Schöll GmbH**
Pettenkoflerstraße 22
D – 80336 Munich
Phone +49 89 624294-0
Fax +49 89 624294-10
info@colliers-schauer.de

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