

# Munich Office Scarcity Leading to Higher Rents

## Current Leases below market rate; Potential for gain-to-lease on expiring leases

Frankfurt – June 10, 2016 - MSCI Inc. (NYSE: MSCI) recorded in a study that Munich is one of the few German cities where average commercial rental prices have risen as a result of increasing demand and occupancy rate, as indicated in the [Property Income Risk & Performance 2015](#).

The study also indicates that current leases in Munich are below market rate, a result of rising rents created by high demand in recent years. However, a significant percentage of current leases will expire in the next two years, which offers landlords the opportunity to increase rents to the market rate.

This study is part of MSCI's Income & Risk Analysis tool (IRIS), which provides a comprehensive examination of the rental property market, allowing investors to benchmark future risks to income and value. The study in this article focused on Munich and benchmarked it to the German market.

According to this IRIS study, Munich and Dusseldorf were the only German cities where average rents have grown in recent years. In Munich, the leasing trend continued to propel market rents upward as the city's attractiveness has greatly diminished office space availability. As a result of high occupancy rates, Munich rents have increased above the national average. Consequently, current leases are about 3% below the market. However, as nearly 40% of leases in Munich will expire by 2018, the Bavarian capital offers the greatest potential on gain-to-lease to property owners.

The trend in Munich, where over 80% of rental contracts are office assets, has been attracting office tenant firms from information technology (IT), research and development (R&D), and consulting firms. The slant toward this sector facilitated the city's stronger performance and rental growth. This concentration, in turn, may also leave Munich more exposed to cyclical downturns. However, Munich landlords have the opportunity to also address this overconcentration with the significant percentage of leases up for renewals in the next two years.

Munich is already a top performer in Germany, which itself had the best property performance in 15 years with a total return of 8.1% in 2015. Germany and Munich benefited from strong domestic and international demand.

**Glenn Corney, Executive Director, MSCI, explains:** "2015 was a great year for German property investment as it benefited from a stable and strong economy and the flow of capital into the sector from domestic and international investors.

"Munich has done particularly well in this environment. The scarcity creates opportunities for rental growth; and with around 40% of all rental leases in the city expiring by 2018, landlords will have the opportunity to benefit from rising rents.

"Moreover, landlords may also be looking at restructuring leases outside of the IT, R&D, and consulting firms to ensure greater income security in the medium-term. Excluding this sector from the office occupier base, most other occupier sectors have an average weighted remaining lease term at or below 3 years."

**Corney continues:** “Germany is traditionally a stable market. Nevertheless, with nearly half of all leases in Germany due to expire ahead of 2020, investors will need to weigh the opportunities created by strong economic conditions and current market fundamentals against concerns over income security during cyclical downturns.”

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## Media Inquiries

### London

Karen Mulligan, MSCI

+ 44 20 7336 9243 / [karen.mulligan@msci.com](mailto:karen.mulligan@msci.com)

### New York

Michael Jalili

+ 1 212 981-1094 / [Michael.Jalili@msci.com](mailto:Michael.Jalili@msci.com)

## MSCI Global Client Service

EMEA Client Service

+ 44 20 7618.2222

Americas Client Service

1 888 588 4567 (toll free)

Asia Pacific Client Service

+ 852 2844 9333

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