



COLOGNE

MARKET REPORT

OFFICE LEASING
AND INVESTMENT MARKET

2018/2019



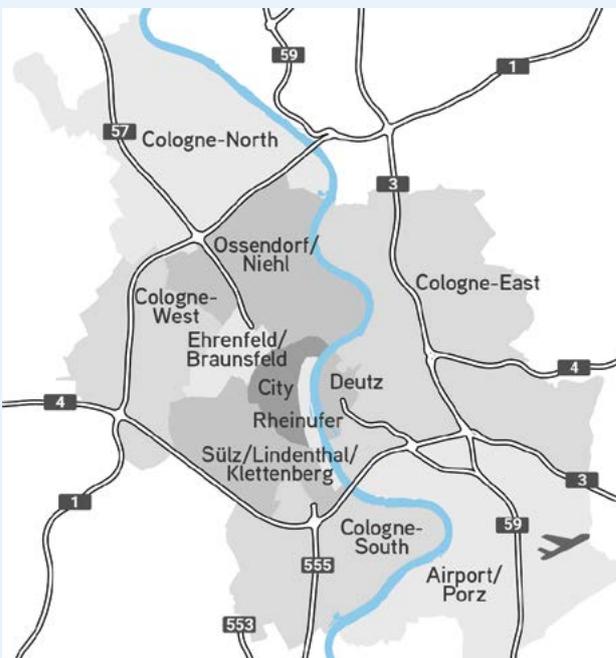


CITY FACTS COLOGNE

| | |
|---------------------------------------------------------|--------|
| Population in 1,000 | 1,080 |
| Employees Paying Social Security Contributions in 1,000 | 568 |
| Unemployment Rate in % | 7.4 |
| Per Capita Disposable Income in € | 25,364 |

Fast Facts

| Office Leasing Cologne | 2018 | Change year-on-year |
|------------------------|------------------|---------------------|
| Office Space Take-up | 290,000 sqm | - 4.0 % |
| Leasing Take-up | 275,000 sqm | 0.4 % |
| Prime Rent | 23.00 €/sqm | 7.0 % |
| Average Rent | 13.80 €/sqm | 7.0 % |
| Vacancy Rate | 2.8 % | - 120 bp |
| Office Space Stock | 7.85 million sqm | 0.0 % |



Achieved Rents in €/sqm

| Submarket | Prime Rent | Average Rent |
|-----------------------------|------------|--------------|
| City | 23.00 | 16.50 |
| Rheinufer | 22.50 | 16.20 |
| Deutz | 21.50 | 16.00 |
| Cologne-East | 15.00 | 12.80 |
| Ossendorf/Niehl | 12.50 | 10.50 |
| Ehrenfeld/Braunsfeld | 14.00 | 11.70 |
| Cologne-West | 12.00 | 10.00 |
| Cologne-North | 9.00 | 8.00 |
| Sülz/Lindenthal/Klettenberg | 16.00 | 12.50 |
| Cologne-South | 12.50 | 11.10 |
| Airport/Porz | 11.50 | 10.40 |

OFFICE LEASING

Take-up

Take-up results on the Cologne office leasing market (including owner-occupiers) were slightly below average in 2018 at 290,000 sqm, marking a slight 4% decrease in take-up yoy. The result also fell short of the 5-year average by about 5% due to increasingly limited supply in the city. In the current market, tenants are frequently choosing to renew their leases or, if major expansion is on the agenda, turning to property developments. The City, Ehrenfeld/Braunsfeld, Cologne-East and Deutz submarkets recorded the highest take-up in 2018.

Public administration, associations and social institutions again secured 1st place in terms of sector activity. The public sector accounted for a market share of around 21% with the City of Cologne's building management department, for example, signing a lease for around 8,500 sqm at the One Cologne high-rise on Venloer Straße. Retail came in second

with a number of mid-sized leases and a market share of 14%. Similar to 2017, co-working providers ranked 3rd with Design Offices particularly active. The company signed leases for roughly 5,600 sqm at the Kaiserhof development and for around 13,000 sqm at the I/D Cologne development. Siemens will also be relocating its Cologne offices to I/D Cologne with just over 10,000 sqm.

Rents

Both prime rent and weighted average rent recorded a yoy increase of around 7% each. That puts weighted average rent at a current €13.80 per sqm and prime rent at €23.00 per sqm. Further rent increases are to be expected for 2019.

FIGURE 1: Office Space Take-up in 1,000 sqm

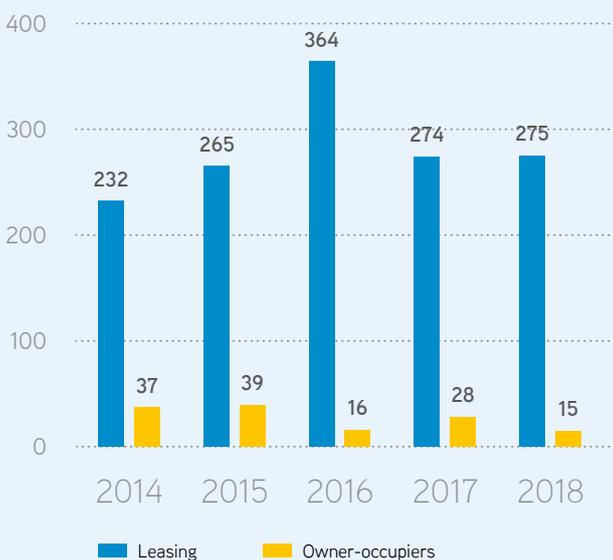
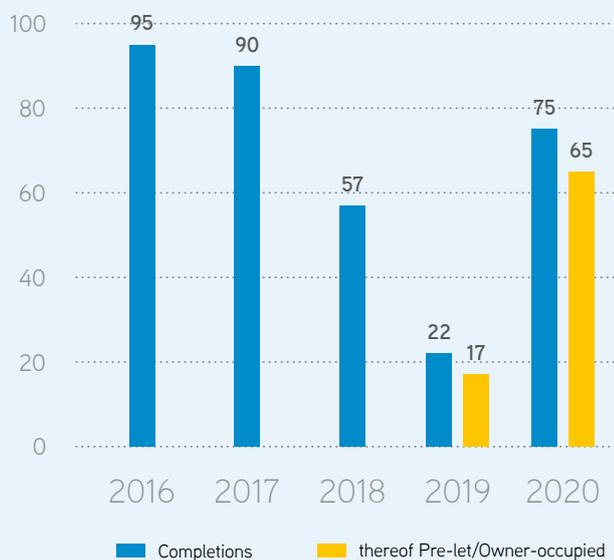


FIGURE 2: Completion Volume in 1,000 sqm



Supply and Vacancy

Vacancy in Cologne took another nose-dive at year-end due to lively leasing activity. Only 220,000 sqm were available for immediate tenancy at the end of the year, down roughly 100,000 sqm yoy. That puts the vacancy rate at a current 2.8%. High-quality, large-scale adjoining stock space in good downtown locations is not available anywhere in the city at the moment. Potential tenants therefore have no choice but to look to other submarkets or sign leases at property developments.

Key Developments

The submarkets located along the right bank of the Rhine River continue to offer the highest development potential. The I/D Cologne development in Mülheim and the Deutz Quartier and Deutzer Hafen developments are of particular note. Plans are to turn the former downtown industrial port into a new urban district in coming years.

Summary and Outlook

In view of the currently tight vacancy situation, the Cologne office leasing market posted a good take-up result in 2018, although just short of 2017's result. Take-up of roughly 260,000 sqm appears realistic for 2019, as the supply of stock properties is bound to decrease further and focus will increasingly shift to new-builds. Both prime rent and weighted average rent are likely to increase further as a result.

FIGURE 3: Vacancy Rate in % and Vacancy in 1,000 sqm

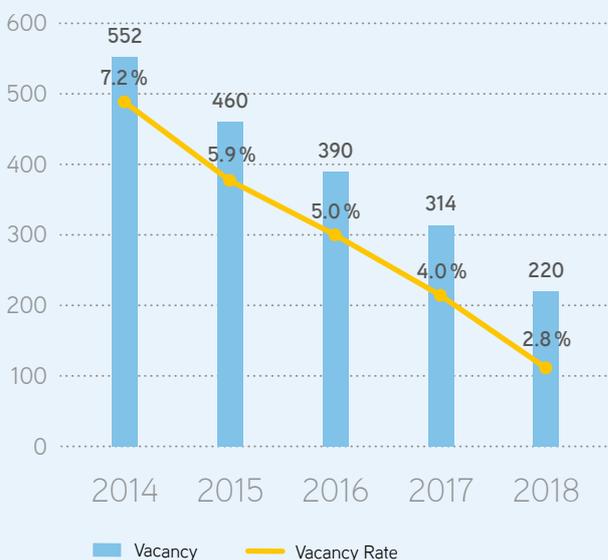
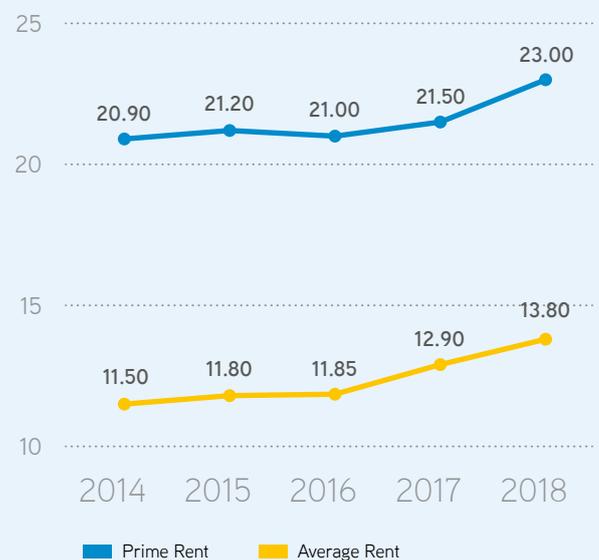


FIGURE 4: Prime and Average Rents in €/sqm



INVESTMENT

Transaction Volume

The Cologne commercial property market (municipal area only) posted a total transaction volume of roughly €1.9bn in 2018, down 7% from 2017's record results. At the same time, 2018 finished up the year as the third-best year on record. A total of 5 major deals in the 9-figure range contributed significantly to this strong annual result, including Hyundai Asset Management's acquisition of former Lufthansa headquarters in Deutz, which is under long-term lease with the Institute for Federal Real Estate, on behalf of a

Korean investor club and the sale of the Maritim Hotel at Heumarkt to Art-Invest. In addition to these major deals, 16 assets also changed hands in the mid-priced segment of between €30m and €100m, setting the tone for lively market activity. The Cologne market also recorded a number of smaller deals for under €30m. In terms of location, the majority of the deals signed in 2018 revolved around downtown Cologne (around €870m) and the Deutz submarket (just under €500m).

Fast Facts

| Investment Cologne | 2018 | 2017 |
|--------------------------------|-----------------|-----------------|
| Transaction Volume | 1,860 million € | 2,000 million € |
| Portfolio Transactions | 25 % | 20 % |
| Share by International Buyers | 52 % | 40 % |
| Share by International Sellers | 42 % | 42 % |
| Most Important Property Type | Office 48 % | Office 50 % |
| Prime Yield Office | 3.75 % | 4.25 % |

FIGURE 5: Transaction Volume in million €

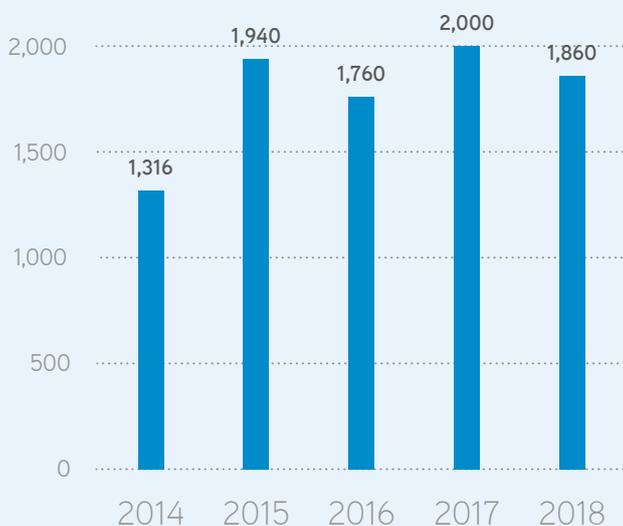
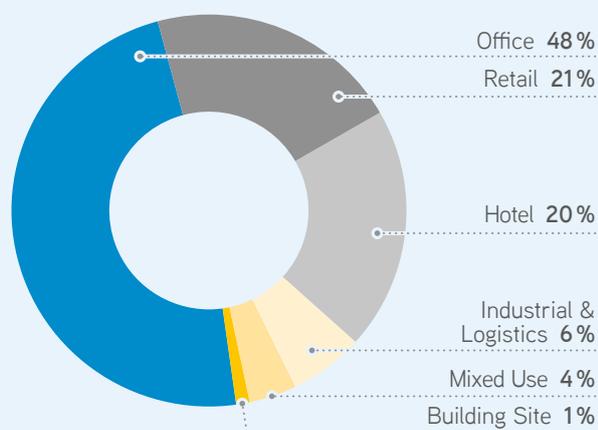


FIGURE 6: Transaction Volume by Type of Property 2018 share in %



Supply and Demand

Just like 2017, office assets claimed first place among the other asset classes, accounting for just under half of total transaction volume. Retail assets followed in the ranks, boosted by the merger of Kaufhof and Karstadt and the affiliated Kaufhof Hohe Straße transaction and accompanied by hotel assets, each with a 20% market share. The 6 hotel deals recorded in 2018 particularly highlight Cologne's attractiveness as a hotel location. The other asset classes all played a subordinate role.

Open-ended funds/special funds were most active buy-side with just over €570m in transaction volume, followed by listed property companies with around €420m. Asset/fund managers also accounted for a notable share of transaction volume with roughly €320m. Opportunity funds/private equity funds

generated the highest transaction sell-side with around €380m, closely trailed by property developers/development companies, who sold their completed office and hotel developments to investors for a total of €340m. Closed-ended real estate funds brought up the pack with just shy of €250m.

Foreign investors, who were already quite active in 2017, increased their market activity buy-side, generating the majority of 2018 transaction volume as a result with 52%. Their countries of origin were fairly diverse. US-based investors were involved in the highest number of deals, followed by Switzerland. Foreign investors also claimed a substantial share of transaction volume sell-side with 42% with a wide variety of countries of origin here as well.

FIGURE 7: Transaction Volume by Buyer Groups
in million €, share in %

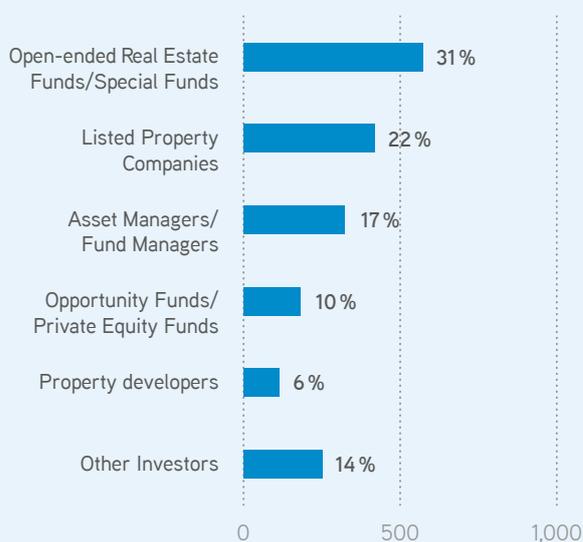


FIGURE 8: Transaction Volume by Seller Groups
in million €, share in %



Yields

Prime yields for office assets in Cologne experienced another significant yoy drop. Yields for prime properties in top downtown locations currently post 3.75%, reflecting a yoy decrease of 50 bps. High street retail assets in prime downtown locations are changing hands at prime yields of up to 3.30%, down yoy by 20 bps. Further yield compression, however, appears unlikely. Compared to Germany's other top 7 cities, Cologne continues to offer the highest prime yields for office and retail assets, even if the gap has narrowed considerably over the past several quarters.

Summary and Outlook

The Cologne investment market generated an excellent transaction volume in 2018, boosted by several major deals. As expected, however, 2018 fell just shy of 2017's record results. Investors buy-side came from a variety of sectors and countries, emphasizing Cologne's impressive international presence. The office leasing market with its upside rent potential provides a solid basis for the activity we are seeing on the market.

Unlike previous years, private investors were somewhat reserved in 2018, a trend that can mostly be traced back to extremely limited supply in this segment.

As expected, most deals tended to revolve around good downtown locations and the Deutz submarket. The Ossendorf/Niehl and Ehrenfeld/Braunsfeld submarkets also made notable contributions to overall results. Looking at current and planned developments, we can expect this landscape to remain consistent in coming years. Transaction volume for the Cologne municipal area should come in at around €1.6bn in 2019. Whether or not the Cologne investment market will again be able to generate results in the €2.0bn range will primarily depend on the availability of assets in the high-volume segment.



”

The vacancy rate on the Cologne Office Leasing market continued to drop in 2018. We can expect to see further rent increases due to limited availability.

CONTACT

Lars Zenke | Director | Research
 +49 211 862062-48, lars.zenke@colliers.com

“

CONTACT

RESEARCH

Lars Zenke
Director | Research
+49 211 862062-48
lars.zenke@colliers.com

Photo credits

Front page: Kranhaus Cologne, Colliers International
Inside: Kranhäuser, shutterstock – r.classen

Copyright © 2019 Colliers International Deutschland GmbH

This document has been prepared by Colliers International for advertising and general information only. Colliers International makes no guarantees, representations or warranties of any kind, expressed or implied, regarding the information including, but not limited to, warranties of content, accuracy and reliability. Any interested party should undertake their own inquiries as to the accuracy of the information. Colliers International excludes unequivocally all inferred or implied terms, conditions and warranties arising out of this document and excludes all liability for loss and damages arising there from. This publication is the copyrighted property of Colliers International and/or its licensor(s).

© 2019. All rights reserved.

Colliers International
Deutschland GmbH
Kranhaus 1, Im Zollhafen 18
50678 Cologne

