

Cologne's Office Space Market

As at: February 2009

Wide-ranging demand results in record turnover again in 2008 – cautious outlook for 2009

Despite the financial crisis and in contrast to expectations, the rents in Cologne's office space market reached another peak in 2008. The previous records of 2006 and 2007 were exceeded, indeed, the 300,000 m² was reached for the first time.

Cologne's office space market - statistical development and forecast between 2004 and 2009

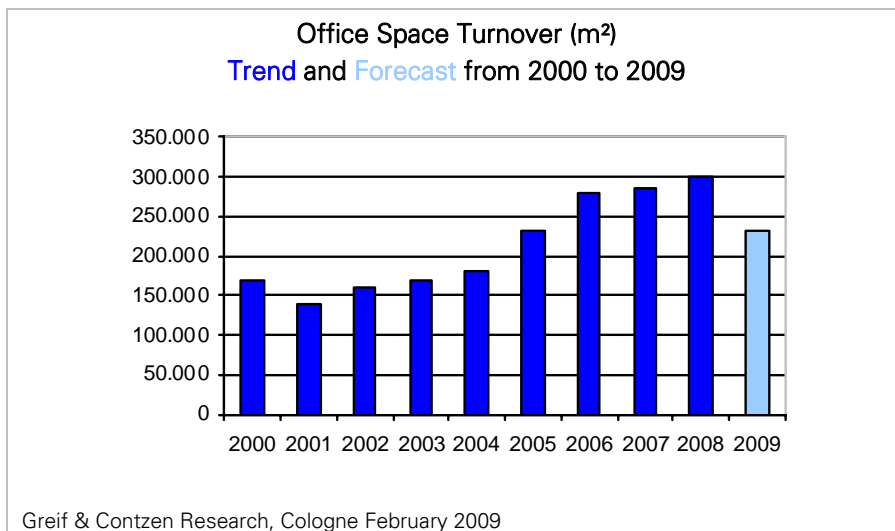
Year	2004	2005	2006	2007	2008	2009	Trend
Employees covered by social security in 000's	440	435	434	444	453	446	↓
Turnover in 000's m²	180	230	280	285	300	230	↓
Existing space in million m²	6,8	7,0	7,0	7,1	7,2	7,4	↑
Vacancies in 000's m²	560	600	580	570	550	550	↘
Vacancy ratio in %	8,2	8,6	8,3	8,0	7,6	7,4	↘
Highest rent in €/m²	18,00	18,50	19,50	21,00	21,00	21,00	↘
Average rent in €/m²	11,19	11,56	11,71	11,86	11,54	11,54	→
Completions in 000's m²	190	140	80	50	120	270	↑

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Review: Seven years of growth

Since 2001, there has only been one direction in Cologne's office space market, namely, upwards. The rental turnover has more than doubled since then. In comparison to the peak of the previous cycle in 1999/2000, the turnover has increased by approx. 80%.



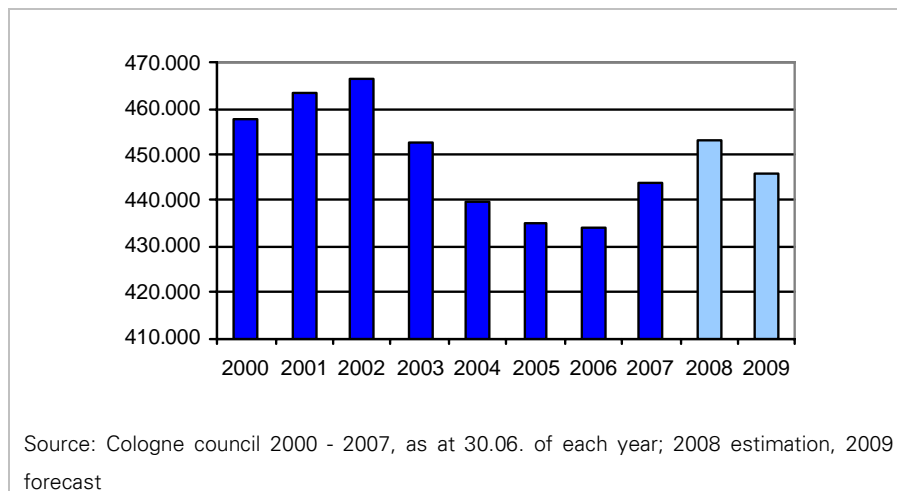
Present: Germany in recession

According to consentient forecasts made by leading economic research institutes, the entire performance of the German economy will shrink considerably in 2009. The main cause of this is the weak development of the world economy. The cyclic downturn will be starkly exacerbated by the global financial market. The uncertainty regarding potential risk in terms of bad credit or overvalued assets which remain hidden in the financial system looms over the world economy.

Employees covered by social security in Cologne
Trend, Estimation and Forecast from 2000 to 2009

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Outlook: Expected decline in demand 2009

Against the backdrop of the current economic trend and the corresponding economic forecast, a downturn in activity in Cologne's office space market is to be expected. In 2009, fewer rental agreements for office space will be completed in comparison to the previous year. The rapid increase in rentals in the previous years will come to an end due to this downturn.

Small and medium-sized leases

Although several company expansions and expected new leases did not come to fruition, the year 2008 still showed an economic upturn. In the cathedral city's office space market a large number of small to medium-sized leases completed led to record turnover. The proportion of office space leases of more than 10,000 square metres was approx. 17% and, in comparison to previous years, was relatively low.

Selection of significant contract completions in 2008

Users / Location (m ²)	Office space
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Generali Deutschland / Altstadt-Nord	21,000
AXA Service AG / Altstadt-Nord	15,300
Polizeipräsidium / Kalk	15,000
Regierungspräsidium / Altstadt-Nord	8,000
Westdeutscher Rundfunk / Altstadt-Nord	7,500
CMS Hasche Sigle / Rheinauhafen	6,000
RAe Oppenhoff & Partner / Altstadt-Nord	5,500
Landschaftsverband Rheinland / Deutz	4,900
JE Jacobs / Braunsfeld	4,100
Heuking, Kühn, Lüer, Wojtek / Altstadt-Nord	3,650
ifp / Altstadt-Nord	3,600
Universität Cologne / Ehrenfeld	3,500
BNP Paribas / Altstadt-Süd	3,300

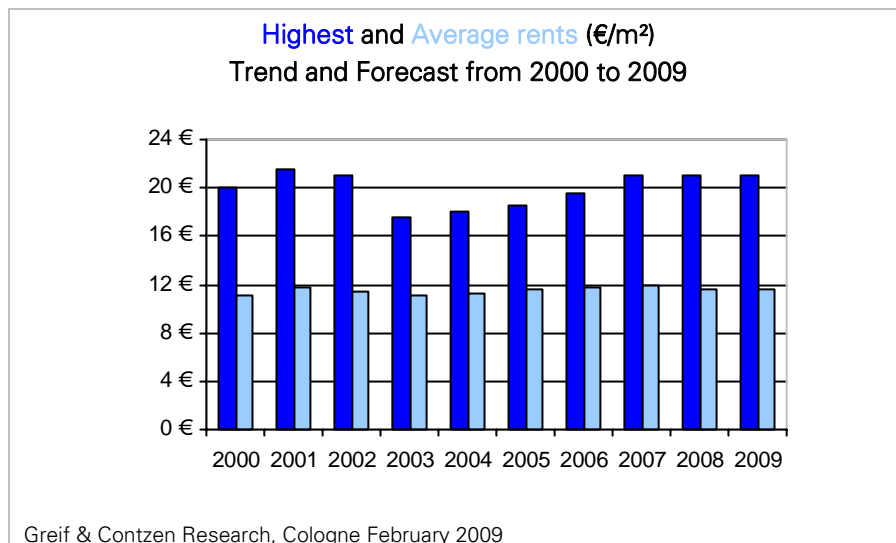
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Rents remain steady

The highest rent remains unchanged at 21.00 Euros per square metre, last year's level. In isolated cases, for particularly well-equipped or ideally located properties, rents in excess of 21.00 Euros could be agreed upon. The average rent currently lies marginally below that of the previous year. Whilst the arithmetic mean dropped from 2.7 % to an average of 11.54 Euros per square metre, the median fell by 1.3% to 11.35 Euros per square metre. The moderate decline in the average rent can be partially attributed to the number of completions in previously less popular areas and more basic properties.



Due to a shortage of modern office space in good to premium locations, a steady trend in rental prices can be expected in 2009. Much of this will depend on how long it takes before signs of a sustainable stabilising of the global market can be seen.

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Stability of rents

Once again, Cologne has distinguished itself in the economic downturn in comparison with other major cities through its lack of volatility. A review of the past decade shows that the average rent fell by just 5.5% in the period between 2001 and 2003, and climbed by only around 6.8% in the period between 2003 and 2007. The highest rent, which usually reacts more sensitively to the market trend, fluctuated within 20% in the period monitored.

Prime locations

Cologne's prime office space is traditionally located on the left bank of the Rhine in the city centre. Currently, properties primarily in the Rheinauhafen (docklands) and along the riverbank but also individual projects are in great demand.

The appeal of the suburb of Deutz has considerably increased due to the excellent rail and road links e.g. the direct ICE link to Cologne/Bonn and Frankfurt airports located within easy reach of the city centre. The positive trend of recent years e.g. the completion of premium properties such as the "Cologne Triangle" or the "Constantin Höfe"; sites currently under construction including the "Rheinpark Metropole"; and the realisation of the planned project "Lufthansa Hochhaus" and "Messe City" confirm this.

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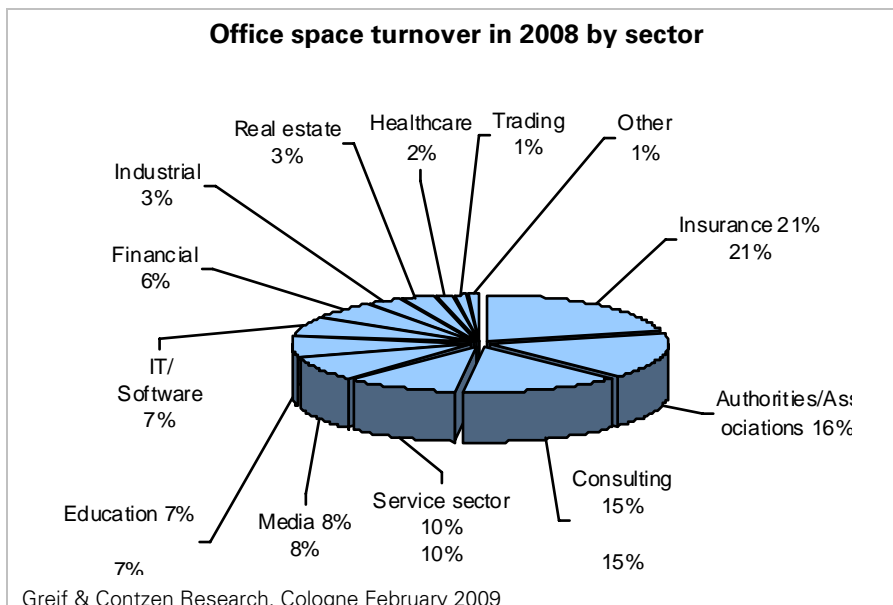
Office rents in Cologne 2008

Location	Rent (€/m ²)
1. Premium locations (e.g. Rheinufer, Rheinauhafen, City Centre)	14,50 – 21,00
2. Preferred office locations (e.g. MediaPark, Deutz)	12,00 – 15,50
3. Mid-market locations (e.g. Ehrenfeld, Ossendorf, Porz)	7,00 – 12,50
4. Less favourable locations (e.g. Longerich, Marsdorf, Kalk)	6,00 - 9,50

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Widespread demand

Rentals of large areas were the exception in 2008 and the view of the different industry sectors of the tenants also shows a heterogeneous picture. In comparison to the previous year, "authorities/associations", "service sector", "insurance" and "education" showed strong growth. "Consulting" and "media" continued to be strongly represented.



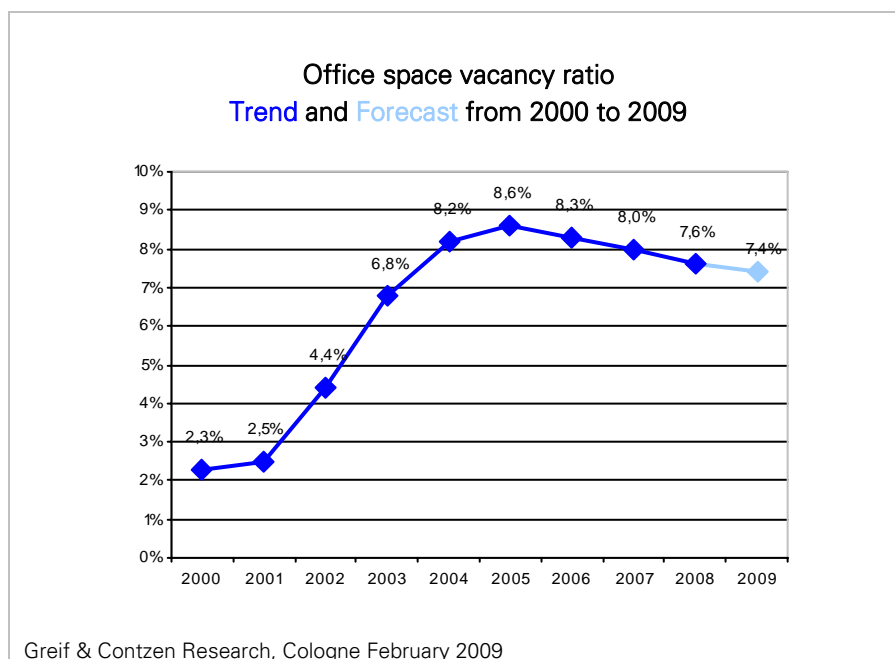
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The level of vacant office space in Cologne is currently around 550,000 square metres. The vacancy rate is 7.6 % which shows a reduction of a further 0.4% in comparison to the previous year.

Vacancies, particularly in old and existing properties

Whilst location has always been an important criterion in the selection of a suitable property, functionality and the energy aspects of a building regarding the total costs are growing in importance. During the selection process, increasingly, prospective tenants analyse the comparative values of space efficiency and energy consumption. As a result of this, older buildings are proving a less attractive prospect and therefore, the vacancy rate is above the average.

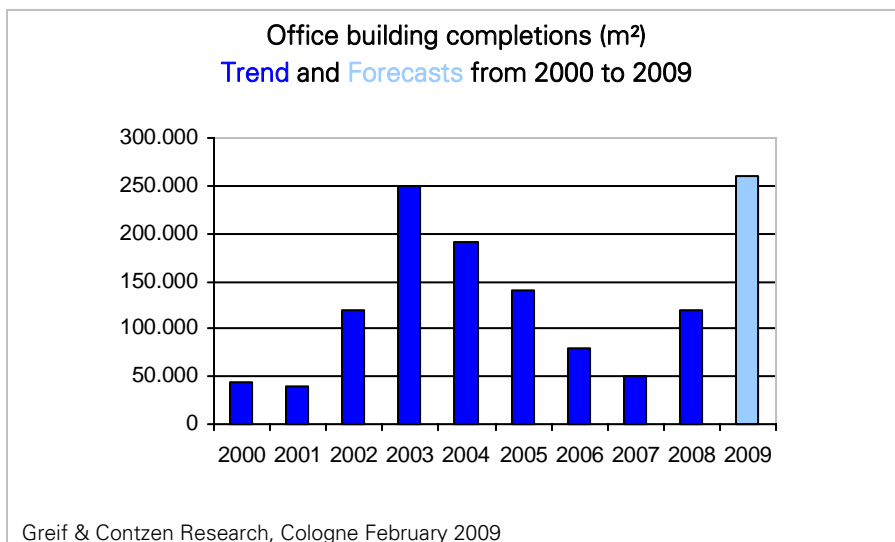


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Completion of major building sites

The level of construction within the city appears high given the comparatively few office buildings constructed between 2006 and 2007. In 2008, a large amount of small and medium-sized office buildings were erected, particularly in the areas of Rheinauhafen and Rheinufer. For the first time since 2003, the volume of buildings completed rose and amounted to 120,000 square metres in 2008. In the current year the completion of the construction projects "Rheinpark-Metropole", "Cologne Oval Offices", "Dominium", "KranhausPlus" and "Cäcilium" will lead to a new record. Remarkably, however, of the numerous major construction projects, only a quarter of the capacity is still available for rental.



Outlook for the city centre

The city centre on the left bank of the Rhine is the most popular location for office space. However, the availability of large, adjoining and modern office space is low. The main area of potential is in older buildings which have been vacated by their previous tenants. An entire area is being reconstructed on the site of the old administration building belonging to the insurance company AXA and Talanx-Gerling ("Gereons Quarter"). Major projects, however, are also underway with the realisation of "Messe City" as well as the redesign and the facelift being given to

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numerous locations including Offenbachplatz, Neumarkt, Rudolfplatz, Breslauer Platz and the inner city ring road.

Significant construction activity in 2009

<u>Property (location)</u>	<u>Rental space (m²)</u>
Rheinpark-Metropole (Deutz)	160.000
Gereons-Quartier	45.500
Cologne Oval Offices (south bank)	30.000
Dominium (banking quarter)	21.000
Westgate (city centre)	20.000
Waidmarkt (city centre)	18.000
Cäcilium (city centre)	17.400
KRANHAUSplus (Rheinauhafen)	16.000
Polizeipräsidium (Kalk)	15.000
Regierungspräsidium/Barmenia (city centre)	7.000
Konrad-Adenauer-Ufer 41 – 45 (north bank)	6.100

Greif & Contzen Research, Cologne February 2009

Don't rest on your laurels!

The sustained positive trend of recent years should not cloud our vision of the future. Cologne and Cologne's office space market will be just as affected by the economic crisis as other major cities. Despite adverse circumstances, the solid foundation built over recent years can still result in a stable trend in the long term. This implies an increased international appeal due, not only to the development of the city, but also the influx of new businesses and residents.

At the moment, there are very few architectural highlights which send positive signals beyond Cologne's borders. The remarkable developments in urban planning of the previous years should be seen to

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provide a basis for further construction of high quality. To this end, the reputable Albert Speer Office for Architecture and Urban Planning, commissioned by the association "Businesses for the Region of Cologne", presented a master plan for the city centre in November 2008 as a 'script' for the city's continued development. Visions and integrated concepts will contribute to a concept of urban planning which will be instantly recognisable and should attract investors and prospective new businesses in a sustained manner. At the same time, the market position and the competitiveness of companies already in situ will be strengthened. When looking beyond the current crisis, consistency in development and good value for money, as is expected in the Cologne market, is of particular importance.

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