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Cologne's Office Space Market

March 2010

A Decline in Turnover as a Result of the Economic Downturn – A Conservative Outlook for 2010

The global economic downturn has also had a noticeable effect on the Cologne office space market. Between 2001 and 2008, the annual amount of leased space rose steadily to a peak of 300,000 square metres. For the first time in 2009 however, a significant decline in turnover was recorded resulting in a total of 230,000 square meters of rented office space and a 23 percent fall on last year's figures.

Cologne's Office Space Market – Statistical Development and Forecast between 2005 and 2010

Year	2005	2006	2007	2008	2009	Dev-velop-ment	2010	Trend
Employees covered by social security in 000's	435	434	444	457	460		450	
Unemployment Rate *	15,4	14,7	13,1	12,1	11,8		12,9	
Turnover in 000's m²	**230**	**280**	**285**	**300**	**230**		**210**	
Existing space in million m²	7,0	7,0	7,1	7,2	7,4		7,5	
Vacancies in 000's m²	600	580	570	550	600		630	
Vacancy ratio in %	8,6	8,3	8,0	7,6	8,1		8,4	
Highest rent in €/m²	18,50	19,50	21,0	21,00	21,00		20,50	
Average rent in €/m²	11,56	11,71	11,86	11,54	10,88		10,70	
Completions in 000's m²	140	80	50	120	260		60	

Greif & Contzen Research, Cologne February.:* as at 30.06.; 2010 estimation

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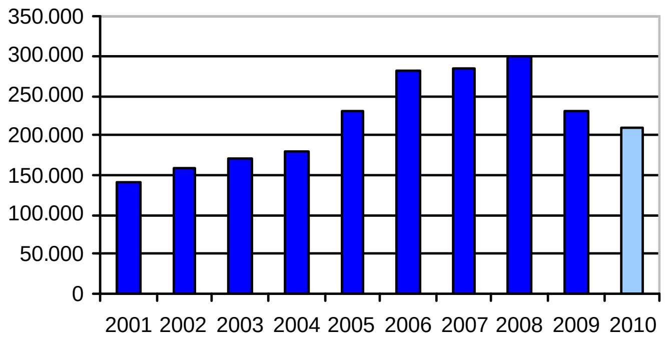
Rental Revenue for 2009 Above the 10-year Average Level as a Result of the Economic Downturn

Although a loss of 23 percent in Cologne's office space market is significant, in comparison to the rental markets of other German office strongholds, some of which have recorded a loss of 50 percent, it is quite moderate.

Sales revenues of 230,000 square meters in 2009 are still above the 10-year average in the rental market for office space in Cologne and compared to the economic downturn of the preceding cycle in 2001, the turnover has increased substantially, namely by about 64 percent.

Office Space Turnover (m²)
Trend and Forecast 2001 to 2010



Greif & Contzen Research, Cologne February 2010

A Conservative Outlook for 2010

As a result of the economic downturn, further consolidation and restructuring of enterprises in 2010 is initially expected. This is associated primarily with redundancies and a reduction in office space needs. A further decrease in the amount of square meters leased is therefore anticipated.

Depending on the macroeconomic development, the high economic potential of the region of Cologne should result in a return to the long-term growth trend in 2011.

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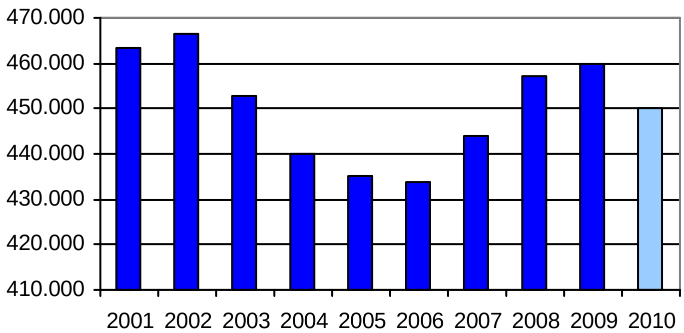
Economic Stabilisation

After the deep recession of the past year, the leading economic research institutes now expect economic growth of 1.5 to 2 percent for 2010 and 2011. However, this does not mean the severe economic downturn has yet been overcome. According to calculations by the German Institute for Economic Research (DIW Berlin), only toward the end of 2011, will Germany have reached the level of economic power it had in mid 2008, immediately before the dramatic production slump. This equates to more than three years of zero growth.

Employees Covered by Social Security in Cologne
Trend and Forecast from 2001 to 2010



Source: state database NRW, as at 30.06.; 2010 estimation

From the previous economic cycle (2001 recession), one can recognise a significantly delayed reaction of the employment situation to the economic trend. In accordance with the trend, the following years should see a noticeable decline in the numbers of employees covered by social security.

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No Large-Scale Rentals over 10,000 m²

In 2009 compared to previous years, leases of more than 10,000 square metres did not occur. Against this background, the annual result is still quite remarkable. Although the past few months have further indicated cautious planning or even a deferment of corporate expansion and new leases, there has been a sizeable number of rental agreements for small and medium-sized office space. The most significant rental agreement of this year has been made for around 8,000 square metres in the "Cologne Oval Offices".

Selection of Significant Contracts in 2009

Company / Location	Office space (m²)
Verband PKV / Bayenthal	8.000
SCOR SE / Altstadt-Nord	6.500
Stadt Köln / Altstadt-Süd	5.400
Verlagsgruppe Lübbe / Mülheim	5.200
PSV / Rodenkirchen	5.000
Beratungsgesellschaft / Rheinauhafen	4.900
Deutscher Städtetag / Altstadt-Nord	4.800
RTL / Deutz	4.400
ABC Leasing / Neustadt-Nord	3.600
MDK Nordrhein / Altstadt-Süd	3.400

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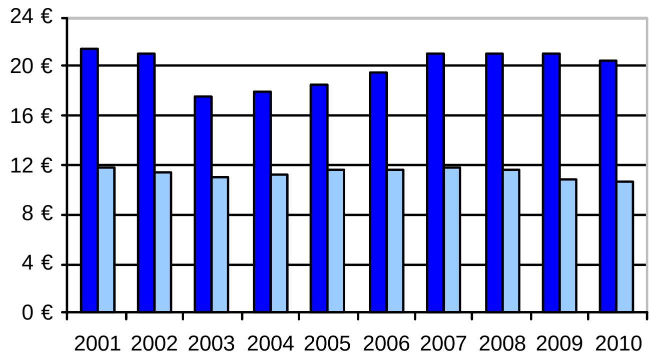
Prolonged Pressure on Rents

While the highest rent remains unchanged at last year’s level of 21.00 Euros per square metre, the average rent has fallen by 5.7 %. The arithmetic mean in 2009 is at 10,88 Euro per square metre and the median is at 10.50 Euros per square metre. The stability of the highest rents can be partially attributed to the fact that space provision in premium properties is comparably low. Due to the pressure on rents, however, rental price reductions have manifested themselves in large numbers.

Highest and Average Rents (€/m²)
Trend and Forecast from 2001 to 2010



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Against the backdrop of current developments, the pressure on rents will continue to exist. But due to a shrinking supply of modern office space in good to premium locations, only a slight fall in rents is expected in this segment.

Economic incentives for the prompt completion of contracts are available for the tenant as the duration of the intended contract, size of leased space as well as the client’s credit rating, puts them in a strong negotiating position.

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Lower Rental Volatility

We have seen in the past that Cologne, in comparison to other metropolises such as Frankfurt or Munich, can distinguish itself through low volatility of rents. The average rent has ranged from 10.88 to 11.86 Euros per square metre in the last ten years; the highest rent, which normally reacts sensitively to the market trend, has ranged between 17.50 and 21.00 Euros per square metre.

Prime Locations

Cologne's prime office space is traditionally located on the left bank of the Rhine in the city centre. This includes properties in the banking quarter, in the Rheinauhafen and along the banks of the Rhine as well as some individual locations with premium properties such as the "21st" or "Westgate". The appeal of the suburb of Deutz on the right hand side of the Rhine, 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 completion of premium properties such as the "Constantin Höfe" and "Rheinpark Metropole" as well as the realisation of the planned project "maxCologne" and "Messe City" will continue to give this area fresh impetus.

Office Rents in Cologne 2010

	Location	Rent (€/m²)
1.	Premium locations e.g. banking quarter, Rheinufer, Rheinauhafen, parts of the city centre	14,50 – 21,00
2.	Preferred office locations e.g. city centre (Kaiser-Wilhelm-Ring etc.), Deutz	11,00 – 14,50
3.	Mid-market locations e.g. Ehrenfeld, Ossendorf, Porz	7,00 – 11,50
4.	Less favourable locations e.g. Longerich, Marsdorf, Kalk	6,00 - 9,50

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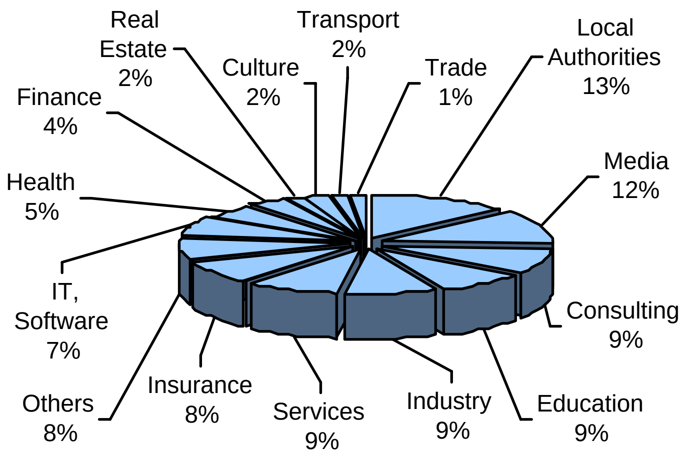
Heterogeneous Demand Structure

The industry structure of the rents once again shows a heterogeneous picture. In comparison with last year, the sectors of "industry", "media" and "health" have seen noticeable growth. "Local Authorities/ Associations", "consulting" and "education" remain strongly represented.

Office space turnover in 2009 by sector



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The level of vacant office space in Cologne is currently around 600,000 square metres. With a total amount of approximately 7.4 million square metres of office space in Cologne, the vacancy rate is 8.1 percent and has risen for the first time since 2004.

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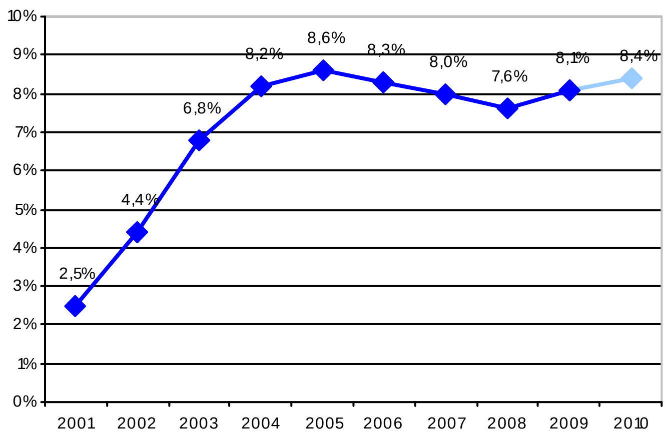
Vacancies, Particularly in Old and Existing Properties

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. Companies are increasingly looking at the relocation advice of competent partners to optimise their needs. As a result of this, older and existing buildings are proving a less attractive prospect and therefore, the vacancy rate is above average.

Office Space Vacancy Ratio

Trend **and** Forecast **from 2001 to 2010**



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Innovative Office Buildings Draw Attention to Themselves

Cologne now has several certified Green Buildings such as the "COO“ - Cologne Oval Offices, the construction of DEG's new management premises, the new Bauwens headquarters and the “etrium” in Cologne-Vogelsang. Meanwhile, the “Westgate“ building, currently under construction, has also been given the Green-Building award.

Due to the current and rapidly changing demands of tenants, the “Cologne Tower” was significantly modernised just ten years after its completion.

Completion of Major Building Sites

2009 saw the completion of major construction projects such as "Rheinpark Metropolis", "Dominion" and the two Kranhaus office buildings in the Rheinauhafen thus setting a new record.
In total, around 260,000 square meters of office space were completed. It is notable that the properties are already fully or mostly rented. For the current fiscal year 2010, only around 60,000 square meters of building area, a significantly lower volume of completion, is in sight.

Significant Construction Activity in 2010/2011

Property (location)	Rental space (m²)
Airportcity Cologne (Porz)	80.000
Gerling Quartier (City centre)	45.000
maxCologne (Deutz)	45.000
RheinEnergie-Zentrale (Neuehrenfeld)	45.000
Cologne Oval Offices (Rheinufer South)	30.000
Carlswerk (Mülheim)	30.000
Waidmarkt (City centre South)	18.000
Westgate (City centre)	16.000
Kaiser-Wilhelm-Ring-Ensemble (City centre)	13.000

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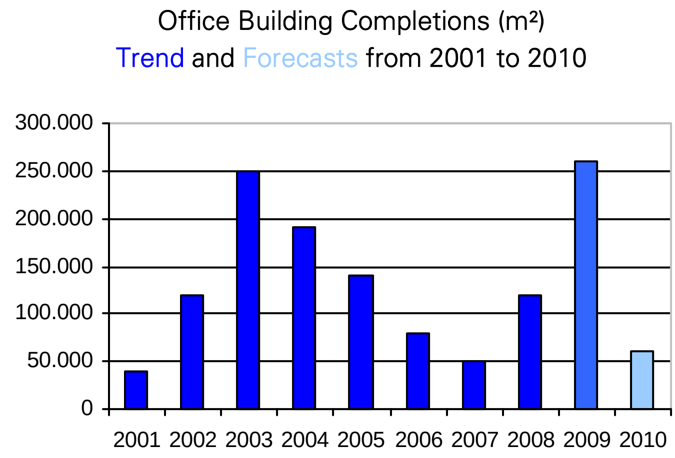

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Opportunities in the Crisis through Stability and Comprehensive Planning

Cologne's generally stable office market retained its position during the economic crisis compared to other locations. Modern, well equipped office space will continue to be leased in the high-priced segment, but only if it is efficient and provides sustainable development concepts with a good price-performance ratio.

Nearly a year and a half after the completion of comprehensive city planning, the citizens of Cologne and it's investors must see positive changes in the cityscape. The city centre planning group should put together a strict schedule and urge the implementation of concrete provisions within it.

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