# Office Space Market Cologne

## October 2018

Kranhäuser in the Rheinauhafen area Greif & Contzen 2018

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## “Significant increase of prime rent, vacancy rate at record low”

Dear Sir or Madam,

The pace at which office space rents are increasing is becoming faster. The development of various key figures of Cologne’s office space market have shown an overall increase of rent levels since 2016. In recent years, however, the prime rent – rental prices realised in the top-price segment that account for a share of around 3 % of the rental turnover – had only increased in small steps.

During the first three quarters of the year, a number of rental contracts has been concluded for office units of a particularly high quality, located in the city centre. This includes a number of take-ups in the four-digit area of square metres that together account for a significant share of the total take-up. As a result, the prime rent has increased considerably since the beginning of the year. It currently stands at EUR 22.50 per square meter. This corresponds to an increase of one euro per square meter, a far greater increase than took place in 2013 and 2016, when the prime rent rose by EUR 0.25 per square metre each. At this point the prime rent in Cologne continues to be moderate, compared to Germany’s other top locations. There is further potential for increases, if the current economic and market conditions are maintained.

A total of around 210,000 square metres of office space was taken up during the first three quarters of 2018. More than one tenth of this space is intended to be used for coworking spaces. The significant increase of offerings in this field, experienced by other top cities in the past, has now also reached Cologne.

Despite continuously high levels of demand, the rental performance is expected to decrease to a total of around 280,000 square metres this year. This decrease is mostly due to the ongoing scarcity of available office space.

Please do not hesitate to get in touch with us, if you have any specific questions regarding Cologne's office space market.

Yours faithfully

Florian Schmidt

Head of Office Properties
Greif & Contzen Immobilienmakler GmbH

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## Office space market Cologne – key figures development and forecast

| Year | 2014 | 2015 | 2016 | 2017 | Development 2016 / 2017 | Forecast 2018 | |
|---|---|---|---|---|---|---|---|
| **Take-up (000's m²)** | **260** | **290** | **440** | **310** | ▼ | **280** | ↘ |
| | | | | | | | |
| **Existing space (million m²)** | 7.7 | 7.7 | 7.8 | 7.8 | ► | 7.8 | ► |
| **Completions (000's m²)** | 82 | 49 | 110 | 95 | ↘ | 55 | ▼ |
| **Vacancies (000's m²)** | 510 | 440 | 360 | 280 | ▼ | 210 | ▼ |
| **Vacancy rate in %** | 6.6 | 5.7 | 4.6 | 3.6 | ▼ | 2.7 | ▼ |
| | | | | | | | |
| **Maximum rent (€/m²)** | 21.25 | 24.50 | 24.80 | 26.50 | ▲ | 26.50 | ► |
| **Prime rent (according to gif) in €/m²** | 21.25 | 21.25 | 21.50 | 21.50 | ► | 22.50 | ▲ |
| **Average rent (initial letting*) in €/m²** | 18.25 | 19.75 | 20.75 | 19.25 | ▼ | 20.20 | ▲ |
| **Average rent (weighted according to unit size*) in €/m²** | 12.70 | 12.40 | 14.10 | 13.70 | ↘ | 14.60 | ▲ |
| **Average rent (mean value*) in €/m²** | 11.90 | 11.90 | 12.20 | 13.00 | ▲ | 13.30 | ↗ |
| | | | | | | | |
| **Employees contributing to social insurance (000's)**** | 512 | 522 | 538 | 553 | ▲ | 570 | ▲ |
| **Unemployment rate in %**** | 9.6 | 9.3 | 8.5 | 8.5 | ► | 7.7 | ▼ |

* For new buildings and revitalised properties in good and very good city centre locations

** as of 30 June, forecast regarding employees contributing to social insurance

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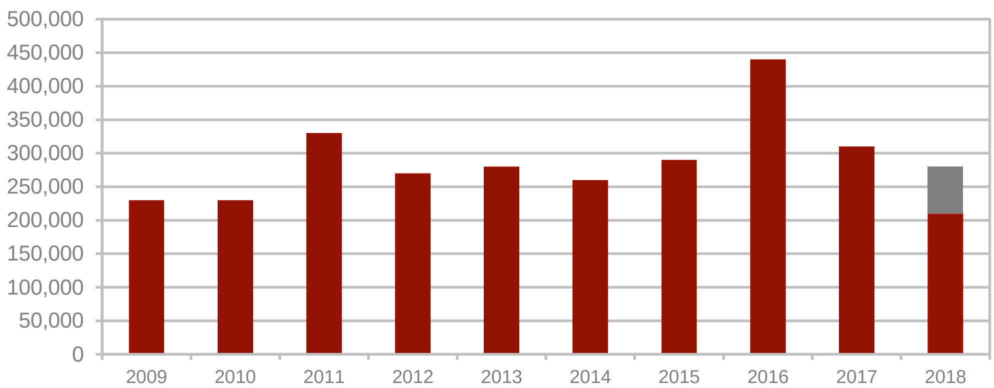
Kaiser Hof © Art-Invest Real Estate

## Significant lettings

The biggest unit taken up so far this year, was accounted for by Design Offices GmbH, who have rented around 14,000 square metres in an office building in the new development area I/D Cologne in the submarket of Mülheim. In the second quarter, Design Offices GmbH had already taken up around 5,600 square metres in the new premium construction project Kaiser Hof.

The software company parcIT GmbH that is active in the area of the financial industry, is also going to move into Kaiser Hof. Their unit has a size of more than 5,900 square metres of office space. This means that the building is almost fully let, despite the fact that it will not be completed until 2019. The City of Cologne took up around 8,500 square metres of office space in ONE COLOGNE, which is currently being revitalised and will be available for use next year.

## Take-up of office space (m²) development and forecast 2009 to 2018

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# Office Space Market Cologne

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## Selection of significant take-ups up to October 2018

| Tenant (location) | office space (m²) |
|---|---|
| Design Offices GmbH (Mülheim) | approx. 14,000 |
| City of Cologne (city centre) | approx. 8,500 |
| DSD Duales System Holding GmbH (Gremberghoven) | approx. 6,000 |
| parcIT GmbH (Innenstadt Nord) | approx. 5,900 |
| Design Offices GmbH (Innenstadt Nord) | approx. 5,600 |
| FOND OF GmbH (Köln Nord) | approx. 5,000 |
| Ford-Werke GmbH (Braunsfeld) | approx. 4,800 |
| City of Cologne (Köln Ost) | approx. 3,600 |
| Ford-Werke GmbH (Braunsfeld) | approx. 2,800 |
| City of Cologne (Köln Ost) | approx. 2,700 |

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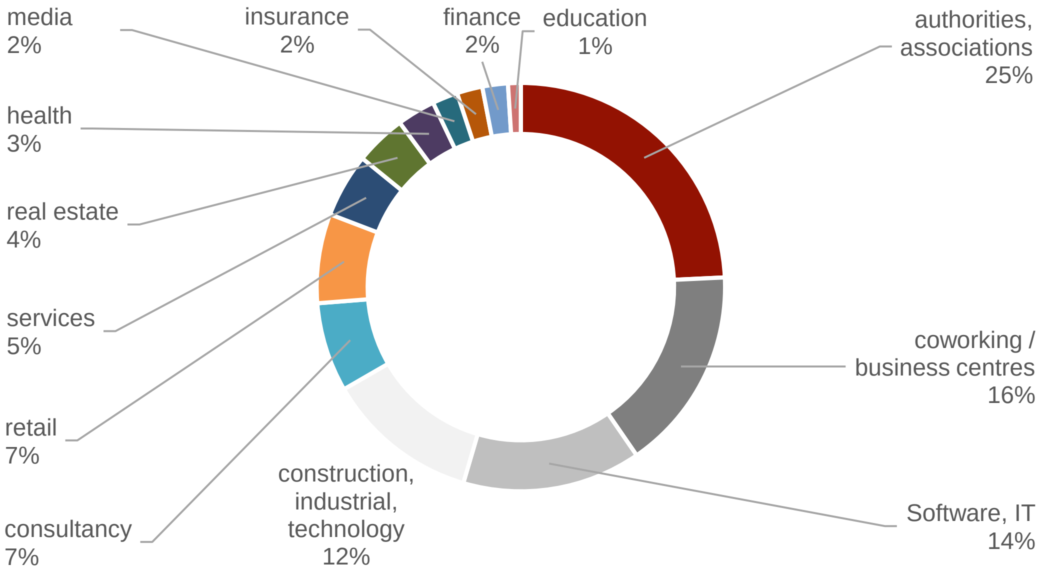
## Take-up of office space 2018 (Q1 to Q3) according to industries

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Ranking only behind authorities and associations, coworking providers and business centre operators have been the second strongest demand group during the first three quarters of the year. This industry accounted for around 16 percent of the total take-up of space. Rank three is shared by the software / IT industry and the area of construction / industrial / technology at around 14 percent each.

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## Development of prices

Rental prices continue to increase, owing to a continuously high demand for office space and low availability of space. The average rent weighted by unit size increased by more than six percent from EUR 13.70 to currently EUR 14.60 per square metre, owing to a number of contracts being concluded for large units in high-quality new construction projects. The unweighted average rent is currently back to EUR 13.00, following a brief temporary peak. Owing to the scarce availability of space, many contracts are also concluded for properties with lower standards.

## Maximum rent price structure according to property types and quality of location

| | New buildings | Revitalised buildings | Up-to-date older buildings |
|---|---|---|---|
| **Top quality location[1]** | 18.00 € - 25.00 € | 18.50 € - 25.00 € | 18.50 € - 26.50 € |
| **High quality location[2]** | 16.25 € - 21.50 € | 14.50 € - 20.50 € | 16.50 € - 17.50 € |
| **Average quality location[3]** | 11.00 € - 17.00 € | 11.00 € - 17.00 € | 12.50 € - 15.50 € |

Listed as monthly base rent per square metre
[1] city centre locations with very good traffic links, high visibility and an established business environment, such as Bankenviertel, Mediapark, Rheinauhafen, Rheinufer
[2] city centre locations with certain drawbacks regarding factors such as visibility or neighbours
[3] locations outside of the city centre including business parks such as Airport Business Park, Braunsfeld, Ehrenfeld, Kalk, Ossendorf

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The prime rent according to the definition by the Society of Property Researchers has increased by one euro to currently EUR 22.50 per square metre. However, maximum rents of up to EUR 26.50 per square metre were realised for outstanding premises in excellent locations. The pricing structure summarised in the table above is the result of an analysis of office space leases for the highest priced units in around 60 office buildings, concluded since 2014.

## Vacancies continue to decrease

Vacant office space decreased by another 60,000 square metres since the beginning of the year to currently around 220,000 square metres. The decrease of vacancies was especially noticeable in the Kölner Ringe area and the Rheinauhafen with decreases of around 7,000 square metres each. It is expected that the vacancy rate will be down to just 2.7 percent by the end of the year. Considering the ongoingly strong economic situation and constant demand for office space, combined with high pre-letting rates for new buildings that are scheduled for completion in the future, it is currently not possible to tell when this trend will be broken.

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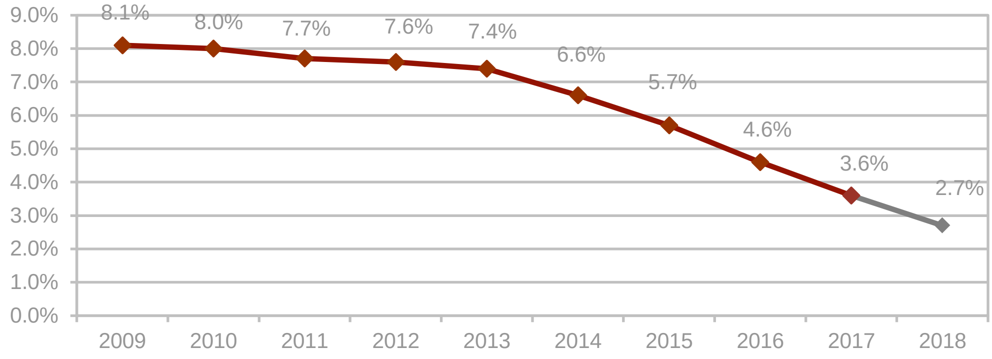
## Vacancy rate development and forecast 2009 to 2018

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## Dynamic office locations

Around one quarter of office space taken up in Cologne over the first three quarters of the year is located on the right bank of the river Rhine. Around 20,000 square metres were let in the submarket of Mülheim. This was due in particular to the large unit taken up by Design Offices GmbH.

In the Kölner Ringe area, many small and medium-sized lettings accounted for a total of around 16,000 square metres. About one quarter of this submarket's take-up was realised in Ring Karree. Around 11,000 square metres were let in the submarket of Braunsfeld. More than half of this space was taken up by Ford Werke GmbH.

In various office locations, rent levels have increased slightly compared to the previous year. These include Mediapark, Rheinufer Nord, Innere Kanalstrasse and Ossendorf.

MediaPark 5 © Greif & Contzen 2018

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## Overview of submarkets

| Location | Available space[1] (m²) | Vacant space (m²) | Ø annual take-up[2] (m²) | Benchmark rent[3] (€/m²) |
|---|---|---|---|---|
| **Innenstadt (City Centre)** | | | | |
| Bankenviertel | 18,500 | 7,000 | 7,000 | 13 - 20 |
| MediaPark | 1,000 | 1,000 | 9,000 | 14 - 20 |
| Rheinauhafen | 10,000 | 10,000 | 9,000 | 16 - 20 |
| Kölner Ringe | 40,000 | 11,000 | 22,000 | 11 - 19 |
| Deutz | 57,000 | 6,000 | 35,000 | 10 - 19 |
| Innenstadt Nord | 51,000 | 16,000 | 33,000 | 11 - 19 |
| Innenstadt Süd | 15,000 | 12,000 | 10,000 | 9 - 17 |
| Rheinufer Nord | 500 | 500 | 8,000 | 15 - 20 |
| Rheinufer Süd | 3,000 | 3,000 | 8,000 | 12 - 17 |
| Subtotal | 196,000 | 67,500 | 141,000 | |
| **Districts on the left bank of the Rhine** | | | | |
| Innere Kanalstrasse | 11,000 | 500 | 5,000 | 12 - 16 |
| Ehrenfeld | 26,000 | 12,000 | 20,000 | 9 - 13 |
| Braunsfeld | 61,000 | 28,000 | 13,000 | 10 - 13 |
| Ossendorf | 97,000 | 18,500 | 20,000 | 8 - 11 |
| Köln Nord | 36,000 | 17,000 | 12,000 | 7 - 12 |
| Köln West | 27,000 | 24,000 | 14,000 | 8 - 14 |
| Köln Süd | 21,000 | 18,000 | 20,000 | 8 - 13 |
| Subtotal | 279,000 | 118,000 | 104,000 | |
| **Districts on the right bank of the Rhine** | | | | |
| Gremberghoven | 50,000 | 7,000 | 14,000 | 7 - 11 |
| Mülheim | 83,000 | 2,000 | 19,000 | 9 - 14 |
| Kalk | 2,000 | 500 | 14,000 | 8 - 15 |
| Köln Ost | 76,000 | 26,000 | 16,000 | 8 - 12 |
| Subtotal | 211,000 | 35,500 | 63,000 | |
| **Total** | **686,000** | **220,000** | **308,000** | |

[1] The supply of available space comprises vacancies, space under construction and a certain amount of space that is still in planning stages.
[2] Specified as average value of the past five years
[3] The listed figures are base rent prices. Considerably higher or lower rents are occasionally agreed upon in individual cases.

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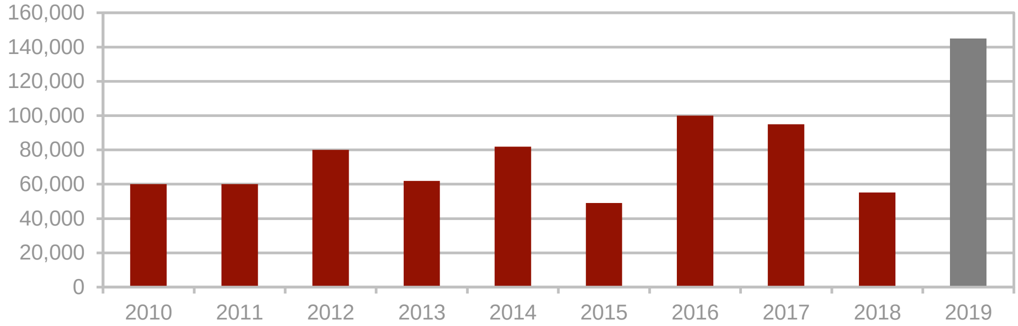
## Completed office space (m²) development and forecast 2010 to 2019

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Around 55,000 square metres of new office space will be completed in 2018. The total of completions is lower than the average of the past five years, by around one quarter. Meanwhile, more than twice as much is expected for 2019, due to the fact that among other projects, the first construction phase of the major construction project MesseCity, with around 68,000 square metres, is scheduled for completion. Furthermore, there are a number of projects each accounting for more than 10,000 square metres of office space.

## Significant construction activities 2018 (properties under construction)

| Property / location | Rental space* (m²) | Completion |
|---|---|---|
| MesseCity (Deutz) | around 120,000 | 2019 / 2021** |
| b3 campus köln (Kalk) | around 19,000 | 2017 / 2019** |
| STRABAG headquarters (Deutz) | around 17,100 | 2018 |
| ONE Cologne (Innere Kanalstrasse) | around 15,000 | 2019 |
| Wallarkaden (Kölner Ringe) | around 14,000 | 2020 |
| CLOUTH 104 (Köln Nord) | around 13,000 | 2019 |
| Kaiser Hof (Innenstadt Nord) | around 12,300 | 2019 |
| Haus Friesenplatz (Kölner Ringe) | around 9,000 | 2019 / 2020** |
| COCO (Ossendorf) | around 8,500 | 2019 |

* Rental space across all construction stages, as applicable

** Across multiple construction stages

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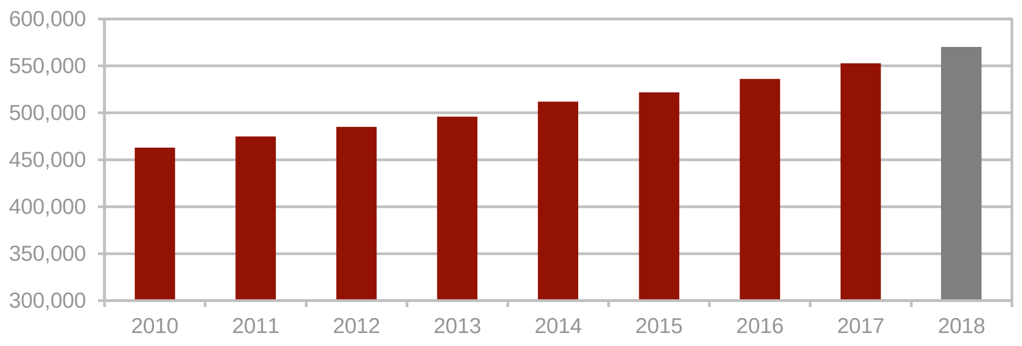
## Employment market and outlook

Leitradlofts at Lichtstrasse 25 in Ehrenfeld © Greif & Contzen 2018

## Booming employment market

Cologne is becoming ever more important as an employment location. Since mid-2010, the number of employees contributing to social insurance has been increasing by an average of around 12,900 individuals per year. No official figures as of 30 June 2018 have been published to date, however, it is highly likely that the number of employees has increased further. The unemployment rate decreased from 8.1 to 7.7 percent during the first half of the year.

## Employees contributing to social insurance in Cologne, 2009 to 2018




Source: Landesdatenbank NRW, as of 30 June respectively

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Börsenplatz in the Bankenviertel © Greif & Contzen 2018

## Outlook: High domestic demand and willingness to invest

Germany's economy continues to expand, even if at a slower rate. Economists expect an economic growth of between 1.7 and 1.9 percent for 2018. For 2019, research institutes continue to assume growth by about 1.6 and 2.0 percent. Strong domestic demand continues to be driven by the positive development of the labour market paired with favourable financing conditions. German export goods continue to be well received, however, considering the future there are various uncertainties, in particular due to the effects of Brexit and international trade disputes.

Overall the ifo business climate index has decreased in the year to date, but it is still on a high level. The economic survey conducted by Cologne's Chamber of Industry and Commerce found the general mood among small and medium-sized local companies to be on a similarly optimistic level as in summer 2017. Willingness to invest has increased slightly.

The economic environment continues to provide a sound overall basis for strong demand for office space. A total of around 280,000 square metres of office space is likely to be taken up by the end of December. However, there is a supply shortage owing to the scarce availability of vacant space. Rental prices are expected to remain on at least the same level as they have been during this year to date. Thanks to current property development projects in the top-price segment, it is likely that the prime rent in particular is going to increase further in the medium term.

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**If you have any questions, please contact:**

**Theodor J. Greif**
Managing Director / Owner

GREIF & CONTZEN
Immobilien GmbH
Tel: +49 221 93 77 93 - 200
Email: gl@greif-contzen.de

**Florian Schmidt**
Head of Office Properties

GREIF & CONTZEN
Immobilienmakler GmbH
Tel: +49 221 93 77 93 - 340
Email: florian.schmidt@greif-contzen.de

**Frank Pönisch**
Managing Director

GREIF & CONTZEN
Beratungsgesellschaft mbH
Tel: +49 221 93 77 93 - 265
Email: frank.poenisch@greif-contzen.de

**Dr. Jan Schubert**
Consultancy, Research

GREIF & CONTZEN
Beratungsgesellschaft mbH
Tel: +49 221 93 77 93 - 263
Email: jan.schubert@greif-contzen.de

Address: Pferdmengesstrasse 42, 50968 Köln

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