Office Space Market Cologne

February 2018

Altes Eichamt © Greif & Contzen 2018

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Significant rent increases in premium-quality properties

Dear Sir or Madam,

The economic situation continues to be very dynamic and this is also reflected in Cologne's office space market. Around 310,000 square metres of space were taken up in 2017. This is the third best result of the past decade. Vacancies decreased to only around 280,000 square metres and the vacancy rate dropped to 3.6 percent, accordingly. Availability of office space is decreasing, in particular in the area of Cologne's city centre that is very popular among office tenants.

The volume of completions of new office buildings continues to be low, despite the fact that demand has been high for many years now. Around 95,000 square metres of office space in new buildings were completed in 2017 and no more than 80,000 square metres are expected to be completed in 2018.

In this environment that is characterised by a scarcity of available space, significantly higher rents than in previous years can be achieved in newly built, restructured and well-maintained modern office buildings. Our latest analysis of rental transactions shows that the highest rents paid for properties in mint condition have noticeably increased since the fourth quarter of 2016 in many areas: in most cases by at least EUR 1.00 per square metre. In our research we have found that it is worthwhile for landlords and property developers to invest into high-quality features for rental units and to maintain excellent standards.

In addition to an account of the general development of the office space market in 2017, you will find our in-depth analysis of top rents and our outlook for 2018 on the following pages.

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	Develop-ment	2018	Trend
Take-up (000's m²)	**260**	**290**	**440**	**310**	↓	**300**	↘
Existing space (million m²)	7.7	7.7	7.8	7.8	→	7.8	→
Completions (000's m²)	82	49	110	95	↘	80	↘
Vacancies (000's m²)	510	440	360	280	↓	220	↓
Vacancy rate in %	6.6	5.7	4.6	3.6	↓	2.8	↓
Top 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	→	22.00	↗
Average rent (initial letting) in €/m²**	18.25	19.75	20.75	19.25	↓	19.50	↗
Average rent (weighted according to unit size*) in €/m²	12.70	12.40	14.10	13.70	↘	13.90	↗
Average rent (mean value*) in €/m²	11.90	11.90	12.20	13.00	↑	13.20	↗
Employees contributing to social insurance (000's)*	512	522	538	553	↑	565	↗
Unemployment rate in %*	9.6	9.3	8.5	8.5	→	8.3	↘

* as of 30 June;

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

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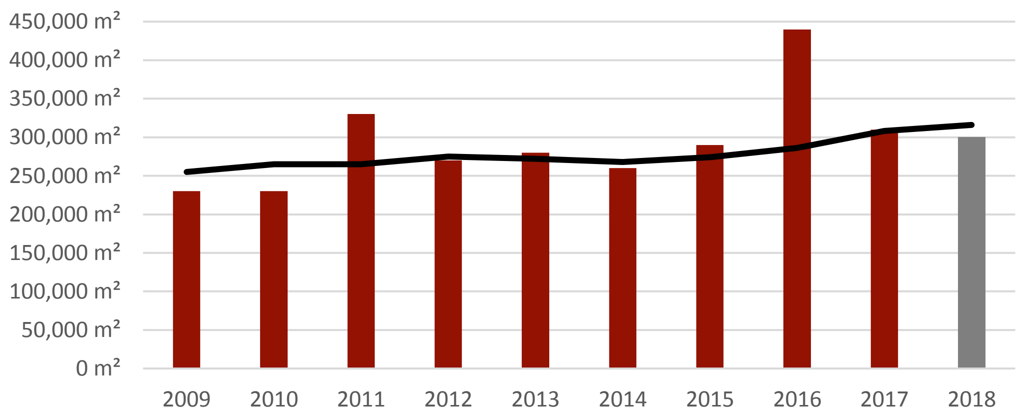
Annual take-up above average

Two units in the 5-digit square metre range were taken up in 2017, accounting for a total of almost 36,000 square metres. However, six units of more than 10,000 square metres were taken up in the record year of 2016 and these accounted for a total of more than 140,000 square metres. Considering this accumulation of major transactions, a decrease of turnover was to be expected for 2017. With 310,000 square metres of office space taken up, the annual result was nevertheless slightly above the five-year average and considerably higher than the ten-year average of around 290,000 square metres.

Take-up of office space development, 5-year average and forecast 2009 to 2018



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Selection of significant lettings

Tenant (location)	office space (m²)
Federal Office for Family Affairs and Civic Duties (Deutz)	approx. 18,800
STRABAG AG (Deutz)	approx. 17,100
Design Offices GmbH (Banking Quarter)	approx. 9,000
Landschaftsverband Rheinland (Deutz)	approx. 8,000
Deutsche Post (Köln Ost)	approx. 7,300
OBI GmbH & Co. Deutschland KG (Mülheim)	approx. 6,700
Deutsche Lufthansa AG (Braunsfeld)	approx. 6,500
Federal Office for Family Affairs and Civic Duties (Kalk)	approx. 5,600
Federal Office of Administration (Ossendorf)	approx. 5,500
Deutsche Lufthansa AG (Innere Kanalstrasse)	approx. 4,600
German Aerospace Centre (Köln Ost)	approx. 4,600
Warner Bros. International Television Production Deutschland GmbH (Köln Nord)	approx. 4,300

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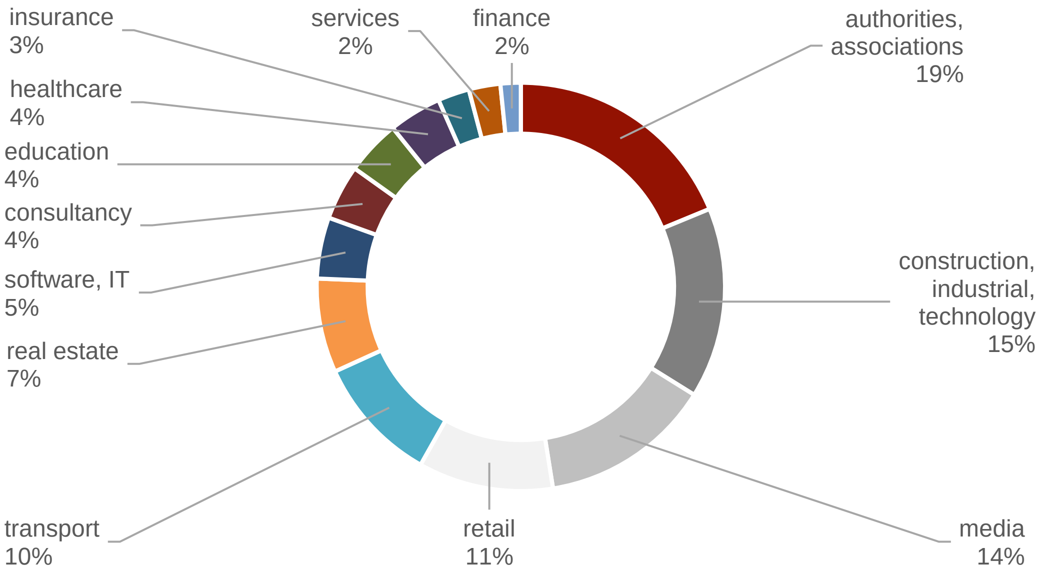
Market activities dominated by four industries

Authorities and associations accounted for around one fifth of office space taken up in 2017. Next in line were companies from the areas of construction, industry and technology, followed closely by the media industry. The retail and transport industries also accounted for significant shares of the total take up, with eleven and ten percent respectively.

Take-up of office space according to industries in 2017



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Rental levels on the rise

The top rent and the unweighted average rent increased significantly over the course of the year, to EUR 26.50 and EUR 13.00 per square metre. This corresponds to an increase by around seven percent each. If the average rent is weighted according to unit size, there has been a decrease compared to 2016. However, this is due mostly to the small number of major transactions for high-rent units that occurred in 2017. Compared to 2015, on the other hand, the weighted average rent has increased by around 10 percent.

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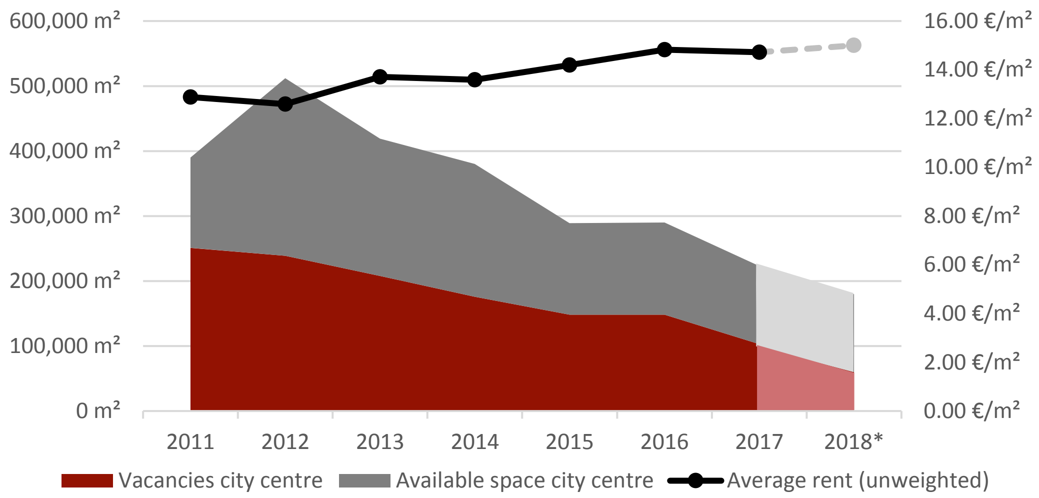
Scarce availability and increasing rents in the city centre

A large share of the demand for office space has traditionally been focused in Cologne's city centre. High take-up figures, low completion volumes and a number of repurposing projects have contributed to a decrease of available space by 40 percent since 2011. Vacancies in the city centre decreased by about 45,000 square metres in 2017 to currently 103,000 square metres. The unweighted average rent for this part of the city increased by around 14 percent, compared to 2011. Considering the continued strong demand situation, it is to be expected that vacancies will decrease further and average rents will increase in 2018.

Availability, vacancies and average rent in the city centre (as of the end of the year, respectively)



* forecast for 2018

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High rents achieved in premium properties

The general increase of rental prices is not limited to the market average but it is noticeable in particular in the segment of premium properties, such as Altes Eichamt (see cover image). The price structure that has established itself for the most attractive rental units in buildings in mint condition, is summed up in the following table. Compared to the results of last year's analysis, significantly increasing rents can be observed in all three location categories with increases by up to EUR 2.75 per square metre.
The ongoing trend of growing top rents means that it is increasingly worthwhile for property developers and landlords to invest into the quality of their buildings and their features and maintenance.

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Realised top rents according to property types and quality of location

	New buildings		Revitalised buildings		State-of-the-art buildings in mint condition	
	Previously	Currently	Previously	Currently	Previously	Currently
Top quality location[1]	€ 21.25	€ 21.25	€ 25.00	€ 25.00	€ 25.00	€ 26.50
Good quality location[2]	€ 20.00	€ 21.00	€ 17.75	€ 20.50	€ 16.50	€ 17.50
Average quality location[3]	€ 15.00	€ 15.25	€ 14.00	€ 16.60	€ 14.00	€ 15.50

Indicated as monthly base rents 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 Businesspark, Braunsfeld, Ehrenfeld, Kalk, Ossendorf
Greif & Contzen Research February 2018

When it comes to very good office locations, it must be taken into account that due to the low availability of new buildings, only a small number of rental contracts were concluded in 2017. This is why expected top rents for high-quality new buildings, such as Wallarkaden – a building that is currently under construction at Rudolfplatz - are based on the new record of EUR 26.50 per square metre.

Dominium © Greif & Contzen 2018

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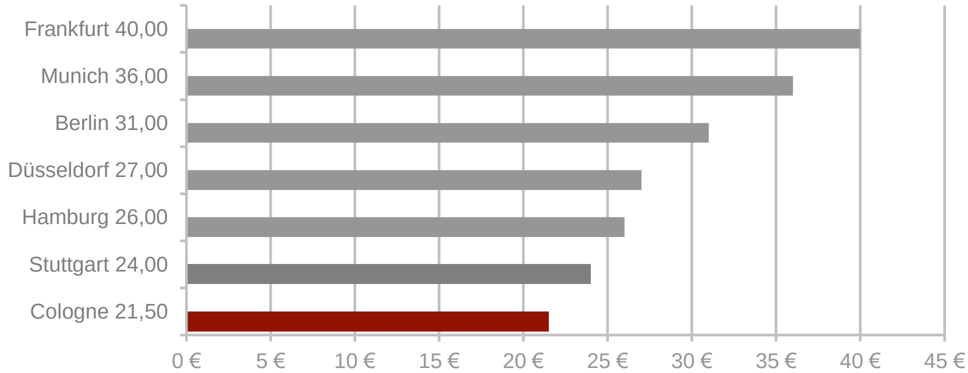
Prime rents in Germany's top office locations 2017 (€/m²)



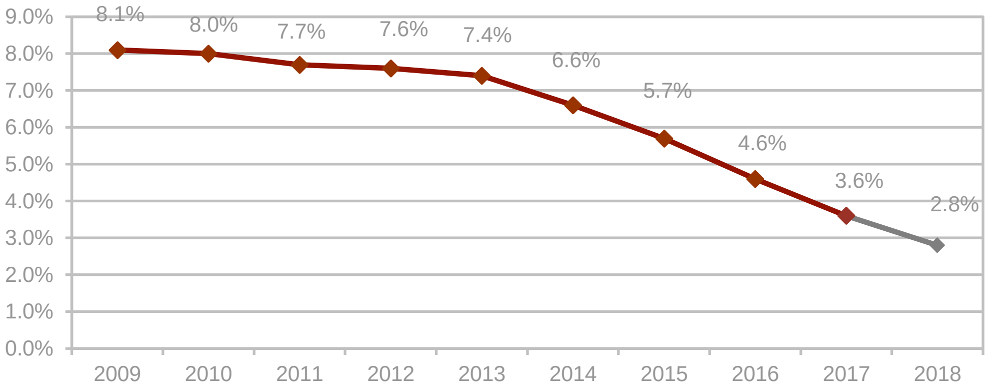
Source: gif e.V.; Greif & Contzen Research; various market reports, February 2018

An increase of the prime rent as defined by the German Society of Property Researchers could not be observed over the course of 2017. A number of contracts that provided for rents of more than EUR 21.50 per square metre were concluded, however, these did not account for the required share of three percent of the total turnover of space.

Vacancy rate drops below four percent and keeps dropping

Vacant office space has been decreasing for many years now, not only in Cologne's city centre but in the entire metropolitan area. Only 280,000 square metres of office space were vacant by the end of 2017. This corresponds to a share of about 3.6 percent of the total stock.

Vacancy rate development and forecast 2009 to 2018



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Vacancies decreased in most sub-markets, in particular in Rheinauhafen and Deutz. The vacancy rate is expected to drop to only 2.8 percent over the course of 2018. Availability of space in existing buildings has meanwhile become very scarce in a number of popular locations. Marketing conditions for property development projects are very favourable as a result. Locations near the city centre and those with good infrastructural links are also likely to benefit from this development.

Decreasing volume of completions

Around 95,000 square metres of office space were completed in 2017 and it is expected that as little as 80,000 square metres will be completed in 2018. In 2017 about 40,000 square metres of office space were lost due to repurposing and an estimated 50,000 square metres are expected to be repurposed in 2018. This leads to a very low net increase of the total stock of space.

A positive development is the fact that various consolidation projects, property developments and revitalisation projects are being carried out and prepared across the city centre.

Kaiser Hof © Art-Invest 2018

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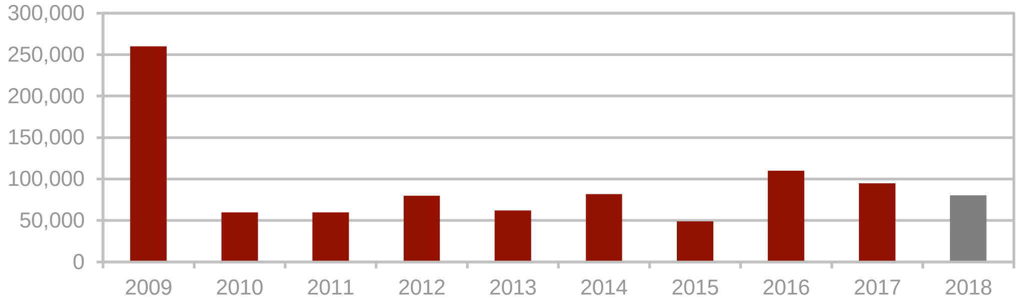
Completed office space (m²) development and forecast 2009 to 2018



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Significant construction activities 2018 (properties under construction)

Property / location	Office space* (m²)	Completion
MesseCity (Deutz)	around 120,000	2019 / 2021**
b3 campus köln (Kalk)	around 19,000	2017 / 2018**
STRABAG headquarters (Deutz)	around 17,100	2018
ONE Cologne (Innere Kanalstrasse)	around 15,000	2018
Wallarkaden (Kölner Ringe)	around 14,000	2020
CLOUTH 104 (Köln Nord)	around 13,000	2019
GAG headquarters (Kalk)	around 12,400	2018
Kaiser Hof (Innenstadt Nord)	around 12,300	2018
Haus Friesenplatz (Kölner Ringe)	around 9,000	2019 / 2020**

* rental space across all construction units, where there is more than one

** according to construction units

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Dynamic office locations

Deutz has been the sub-market with the highest take-up figures for the second year in a row. A total of around 57,000 square metres of office space were taken up, in particular due to a number of large contracts and because construction commenced for the new owner-occupied headquarters for STRABAG AG. Zurich Versicherung had already taken up some 60,000 square metres in the large-scale construction project MesseCity in Deutz in 2016.

Compared to other sub-markets, a high turnover of space was also achieved in Mülheim, where around 23,000 square metres were taken up. Take-up in this sub-market was characterised especially by space requests from the media industry and from retail chains with their e-commerce divisions.

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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	14,000	2,000	7,000	13 - 20
MediaPark	2,000	2,000	9,000	13 - 20
Rheinauhafen	17,000	17,000	9,000	16 - 20
Kölner Ringe	44,000	18,000	22,000	11 - 19
Deutz	60,000	10,000	35,000	10 - 19
Innenstadt Nord	59,000	31,000	33,000	11 - 18
Innenstadt Süd	12,000	8,000	10,000	9 - 16
Rheinufer Nord	1,000	1,000	8,000	14 - 20
Rheinufer Süd	14,000	14,000	8,000	12 - 17
Subtotal	223,000	103,000	141,000	
Districts on the left bank of the Rhine				
Innere Kanalstrasse	13,000	2,000	5,000	10 - 16
Ehrenfeld	27,000	14,000	20,000	9 - 13
Braunsfeld	56,000	32,000	13,000	10 - 13
Ossendorf	92,000	12,000	20,000	7 - 11
Köln Nord	33,000	15,000	12,000	7 - 10
Köln West	24,000	19,000	14,000	8 - 14
Köln Süd	29,000	26,000	20,000	8 - 13
Subtotal	274,000	120,000	104,000	
Districts on the right bank of the Rhine				
Gremberghoven	54,000	17,000	14,000	7 - 11
Mülheim	78,000	4,000	19,000	9 - 14
Kalk	3,000	1,000	14,000	8 - 15
Köln Ost	84,000	35,000	16,000	8 - 12
Subtotal	219,000	57,000	63,000	
Total	**716,000**	**280,000**	**308,000**	

[1] The supply of available space consists of 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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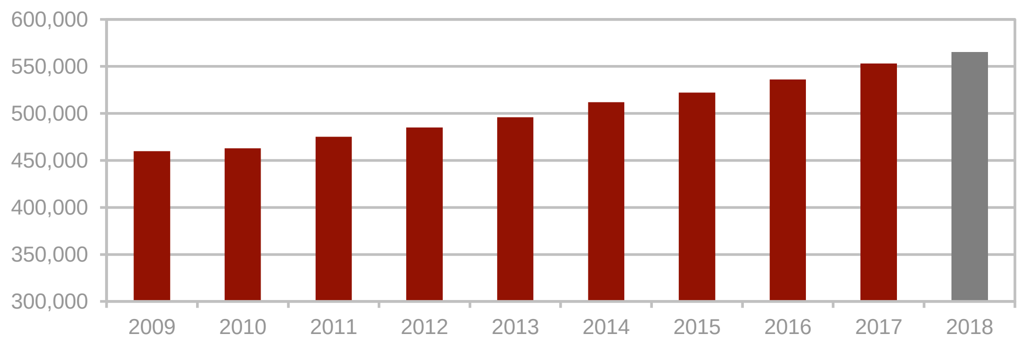
KÖLNCUBUS süd © Greif & Contzen 2018

Employment continues to increase

Cologne's labour market keeps expanding. The number of employees in Cologne increased by around 15,000 to 553,000, between June 2016 and June 2017. This corresponds to almost three percent. However, the unemployment rate of 8.5 percent was not decreased. According to positive forecasts by institutes of economic research, it is expected that employment figures in Cologne's job market are going to increase further in 2018. The latest economic survey conducted by Cologne's chamber of industry and commerce confirmed that local companies are even more willing than before, to employ further staff members. This is also going to have a positive impact on the office space demand situation.

Employees contributing to social insurance in Cologne development and estimate 2009 to 2018



Source: Landesdatenbank NRW, as of 30 June respectively; 2018 Greif & Contzen Research

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Rheinauhafen © Greif & Contzen 2018

Outlook: Continued strong demand, scarce availability and growing rental prices

The gross domestic product increased by around 2.2 percent in 2017, according to the preliminary calculation by the Federal Statistical Office. This is the highest figure since 2011. Economic forecasts expect the boom to gain further momentum in 2018 with economic performance increasing by up to 2.6 percent. The upswing is fuelled by corporate investment, construction activities and private consumption. The employment market continues to grow, approaching full employment in some regions. A further improvement of the local economic climate was found by the latest economic survey conducted by the Cologne chamber of industry and commerce.

These general conditions are also favourable when it comes to demand for office space. However, turnover may be dampened by the low and still decreasing availability of space - especially in the city centre. As a result, many rental transactions will take place either in existing properties in areas near the city centre or in locations further out of town that have good traffic links. Furthermore, units will be let in new properties that are scheduled for completion in 2019 and 2020.

On the whole, it seems quite possible that more than 300,000 square metres of office space will be taken up in 2018 once again. Due to the market situation described, it is realistic that higher rents can be established in many properties. A further general increase of rents is therefore likely.

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