

Pressemitteilung

Köln, 06.02.2024

Division in Cologne's office space market

Good rents can still be obtained with new and modernised office buildings, but it is becoming increasingly challenging to find new tenants for older buildings.

Cologne's office space market was far from flourishing in 2023: at around 200,000 square metres, floor-space turnover was the lowest in 19 years. There was much uncertainty among businesses, owing to the weak economic situation and a whole bundle of crises and challenges, such as the war in Ukraine and intensifying geopolitical crises, rising energy prices and turbulent budget policy in Germany, the skilled workers shortage and high bureaucratic costs. Growth, expansion and relocation plans were put on hold, and a strong decline in take-up of office space could be observed in Cologne. Planning for 2024 tends to be accordingly subdued, following a wait-and-see approach. As a result, the property experts from Greif & Contzen Immobilienmakler GmbH in Cologne have found in their latest market report that demand for space and take-up have not recovered over the first few weeks of the new year.

Higher rental level despite decline in demand

However, there is one indicator that does not seem to match this market situation: the level of rents. The rent level for office properties in Cologne has increased on the whole, despite the decline in demand and rising vacancy rate. If fewer companies wish to take up office units and more space is available, rents should normally be lowered to be able to find tenants at all – this would be the usual market mechanism, at least.

The gap between new builds and older existing buildings is growing

Andreas Reul, who is in charge of the office property division of Greif & Contzen Immobilienmakler GmbH, is able to explain this phenomenon: "The gap has been widening." This supposed contradiction, Reul says, is based on a growing division of the office space market. On the one hand there are older existing buildings and on the other hand there are new builds with steadily improving building technology: like the two blades of a pair of scissors so to speak. The growing pressure on owners of older office buildings is also reflected in the geographical distribution of floor-space turnover. Demand for space was still high



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in a number of city centre neighbourhoods. These are presented on Greif & Contzen's office market map that is available on the company website. One key factor in this context have been plans to modernise a number of large office buildings, which led to alternative units being picked up in easily accessible locations.

Higher prime rent, stagnating average rent

"Considering the increase in vacancies paired with the fact that users tend to be more demanding, rent increases are hard to realise for older office buildings that have started to show their age and have not been modernised to date," Reul points out. This is not the case for new and modernised buildings, where landlords have been able to pass on higher construction and maintenance costs, and to account for good locations and modern features through higher rents. "On one side of the gap there are new and modernised buildings that are let for high prices. And on the other side there are older existing buildings that increasingly fail to meet technical requirements," says Andreas Reul, describing the current situation in Cologne. This trend is reflected in rent prices: while the prime rent rose from EUR 28.50 to EUR 33.00 per square metre in the past year, the average rent across all types of office units and buildings stagnated at EUR 16.70. Only a minor increase could be observed in the overall assessment.

Slow recovery

At the moment it does not look as though the situation in Cologne's office space market will be much better in the first few months of 2024 than was the case in 2023. The economic situation remains unfavourable, and companies continue to be rather sceptical about the future. There is still much uncertainty, space requirements are being reconsidered, and plans to take up new space are being postponed. The experts from Greif & Contzen believe that demand for office space in Cologne will recover only slowly in 2024, with an estimated overall take-up of 230,000 square metres. This would at least mean for floor-space turnover to come a little closer to the five-year average again.

Turning point for average rents

Greif & Contzen's researchers expect that more office units will be vacated and that prospective tenants will have a bit more choice again when it comes to existing buildings, putting them in a stronger negotiating position. In consideration



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of the challenging times that affect many office users, Greif & Contzen expects that fewer high-price units in new and modernised buildings will be let than in 2023. Owing to diminished income and an uncertain outlook, tenants are likely to opt for more short-term arrangements and more affordable existing buildings. The experts from Greif & Contzen expect that these will account for a greater share of take-up in the months ahead. Office property expert Reul explains what this will mean for the development of office rents: “The prime rent will remain close to the 2023 level. However, we expect that the volume of high-price transactions will not be high enough to keep average rents on the current level.” This suggests that Cologne’s office space market is approaching a turning point: “Following more than ten years of stable or rising average rents, we expect that these will come under downward pressure in 2024,” Reul says.

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Bei Fragen wenden Sie sich bitte an:

Stefan Altmann

Tel: +49 221 937793-312

Presse- und Öffentlichkeitsarbeit

Pferdmengesstraße 42 • 50968 Köln (Marienburg)
Tel. +49 221 937793-312 • Fax +49 221 937793-77
presse@greif-contzen.de • www.greif-contzen.de

