

Pressemitteilung

Köln, 06.03.2024

Recovery on Cologne's property investment market

A long-term low was observed on Cologne's real estate investment market at the end of 2023. However, there are a few signs of recovery: the property experts from Greif & Contzen expect growth in a number of asset classes over the next few months.

Cologne's real estate investment market was characterised by scepticism and reluctance in recent months. Both buyers and sellers are acting cautiously in this challenging situation caused by high interest rates, a weak economy and great uncertainty. The transaction volume across all property segments decreased by 19 percent compared to the year before, to around 3.5 billion euros. This is a long-term low for a market that enjoyed attention from numerous potential buyers from Germany and abroad and active trading in recent years. "There were far fewer sales in 2023, and purchasing prices decreased considerably. We had no very large transactions at all, with purchasing prices above 100 million euros, like those we saw in Cologne in the boom years of 2019 and 2021," says Thorsten Neugebauer, Head of Investment at Greif & Contzen Immobilienmakler GmbH, describing the past year. The biggest deal concluded in 2023: Patrizia bought the 12,400 square metres big office building KAP am Südkai from DWS for around EUR 65 million euros.

Market upturn expected in the second half of the year

Nevertheless, the real estate experts from Greif & Contzen expect that this slowdown in the market will be followed by an increase in sales activities over the course of the year ahead: "A market recovery could set in in the second half of 2024." This is, however, subject to a favourable development of the interest rate environment and to banks overcoming their reluctant approach to financing. Much improved inflation figures do suggest that this is a likely scenario. In their analyses, the experts from the Cologne-based real estate company Greif & Contzen predict that availability will be scarce on the condominium, industrial and logistics, and hotel markets with stable to rising rents in these segments, giving rise to opportunities for investors who wish to realise appreciation potential. However, the property specialist Neugebauer points out that it will take a while for the market to actually return to an upward trend. "The majority of investors will continue to be reluctant, until there are more positive market signals, in particular with regard to the development of interest rates and purchasing prices," the expert from Greif & Contzen points out. "We do think that the investment market is past its lowest point,

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though.” Government regulation in the housing market has been turning into an increasingly high hurdle that has been slowing down investment activities, especially in the area of property developments.

Office properties

In their latest investment market report, the researchers from Greif & Contzen are taking a closer look at the individual asset classes. When it comes to office properties, it shows that these are by now far less attractive to many investors. At some 340 million euros, the transaction volume was considerably lower than the 5-year average. Office properties accounted for 43 percent of the overall investment volume generated across all types of commercial real estate. In the year before, they had accounted for 73 percent. As described in Greif & Contzen’s latest office space market report, the market for office properties has been increasingly splitting into two parts: good rents can still be obtained with new and modernised office buildings, while it is becoming more and more challenging to find new tenants for older buildings.

Retail properties

Transaction activities involving retail properties in Cologne were a bit livelier. Many retailers have been under pressure, as the situation has remained tense since the COVID-19 pandemic, and some filed for insolvency. Vacant shops could be found on many inner-city streets, and rents decreased in a few areas. Against this background, purchasing prices declined further. However, some buyers seized this opportunity, giving rise to an increase of the transaction volume by some ten percent compared to 2022, to around 110 million euros. In this context, a number of retail buildings changed hands in the city centre and other neighbourhoods. Among these were the Sommershof shopping centre in Rodenkirchen and the former Kaufhof department store in Weiden.

Industrial and logistics properties

Availability of industrial and logistics space remains scarce, rents are stable and the asset class continues to be of interest to many investors. While the transaction volume in the Cologne | Bonn logistics region decreased from 550 million euros to 340 million euros, the overall result was still above average. This indicates that the investment perspective in the asset class remains largely positive, despite higher interest rates and the economic downturn. “Greater progress has been made in pricing processes between sellers and buyers than is the case for office properties, for example, and transaction activity around

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industrial and logistics properties will therefore pick up its pace more quickly,” says Thorsten Neugebauer in view of the next few months ahead.

Hotels

Following a number of difficult years, the hotel segment has by now recovered from the pandemic with rising numbers of overnight stays allowing for higher room rates once again. Investors identified the resulting opportunities, giving rise to more active trading of hotel properties. The transaction volume increased considerably, even in 2023. Since there are no more obstacles preventing travel and as Cologne is an attractive destination for business travellers and tourists, investors are likely to shift their focus back on hotels and their expansion plans.

Apartment buildings

We are all familiar with Cologne’s problem: the gap between demand for housing and construction activity is widening. An average of around 2,590 residential units were completed annually between 2018 and 2022, while about 6,000 new apartments are really needed every year. As had been the case in previous years, available properties were limited largely to existing buildings also in 2023. Only a few large new buildings were sold. This led to a comparably low transaction volume of some 680 million euros generated with apartment buildings, which corresponds to the 2013-level. The average purchasing price dropped from around 1.7 million euros in 2022 and around 2.5 million in 2021 to just 1.4 million last year.

A full market recovery will be hard to realise over the next few months, since high construction costs and inhibitory factors of the regulatory landscape are slowing down construction activity.

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