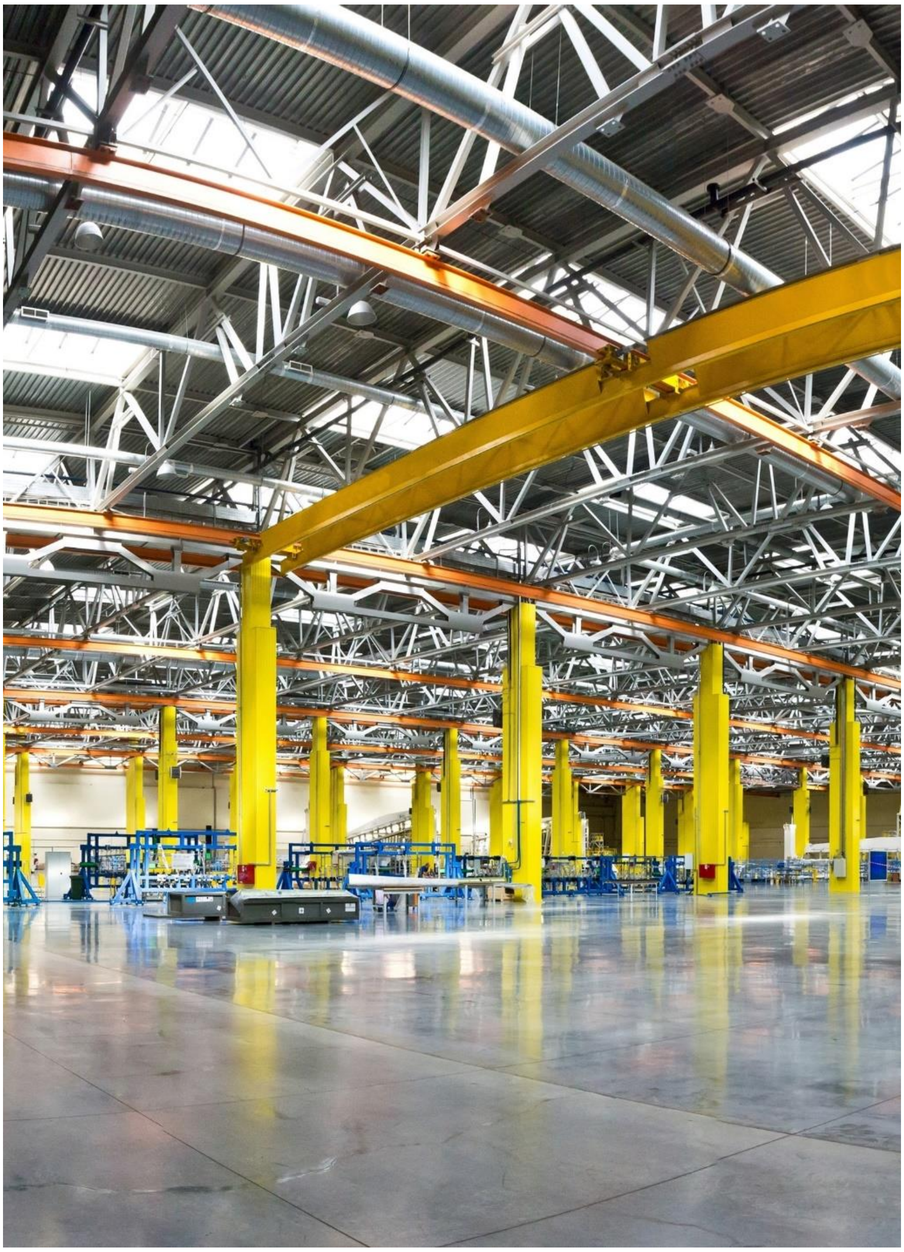
Industrial Property Market

Industrial | Storage | Logistics

Cologne and Surrounding Region

2017



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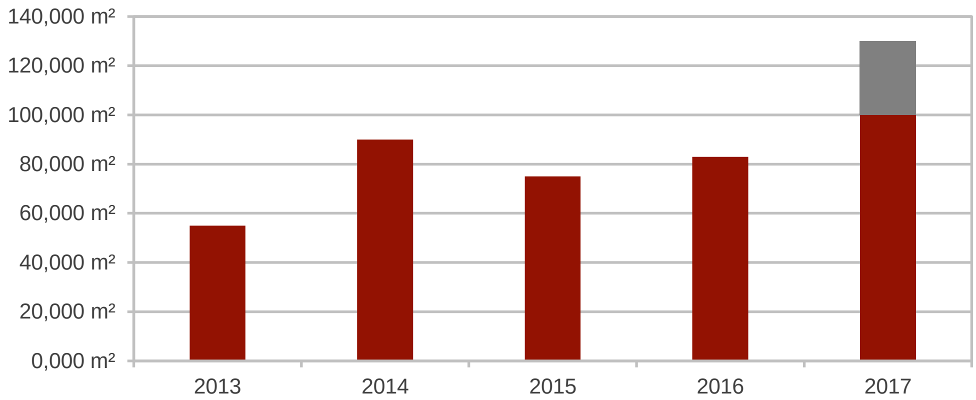
Take-up figures boosted by major contracts - significant year on year growth expected

A total of around 100,000 square metres of warehouse space were taken up **within Cologne's city limits** between January and the end of September 2017. Even at this point, the total turnover of the previous year has been surpassed by about 20 percent. Take-up may increase to around 130,000 square metres by the end of 2017, thus exceeding the average figures of the past five years by more than 60 percent.
In the logistics region that includes **the area surrounding Cologne**, a total of around 220,000 square metres has been taken up so far. This figure includes properties occupied by their owners. It is likely that an overall result of 300,000 square metres will be achieved in the region by the end of the year, surpassing the previous year's level by 50 percent.
This growth is based on a number of major rental contracts as well as construction measures for owner occupation regarding units of more than 10,000 square metres. The biggest units were taken up by paper producers Papyrus Deutschland and IT service providers Computacenter, renting around 22,000 square metres each in Köln-Niehl and Kerpen respectively. The discount retail chain Centershop took up more than 13,000 square metres of warehouse space in Marsdorf and online retailers Clic-Trade took up around 10,700 square metres in Westhoven. The beverage delivery service company flaschenpost that specialises in the online business, concluded a contract for around 5,500 square metres in Ossendorf. The pharmaceutical distributors Sanacorp are building a new logistics centre for owner occupation on a 18,000 square metre plot in Hürth.

Take-up of warehouse space in COLOGNE Development and Forecast



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Transport infrastructure is becoming an increasingly important issue for Cologne as a logistics location. For many companies, the location quality of the industrial estates in the north of Cologne has suffered due to the ongoing closure of the Leverkusen motorway bridge for heavy-duty traffic. Logistics service providers in particular are increasingly favouring warehouse space that is closer to the still accessible Rodenkirchen motorway bridge in the south of Cologne. Furthermore, a survey by the Cologne Chamber of Industry and Commerce has found that less than half of the polled small and medium sized companies from the region are satisfied with the state of the roads.

Selection of take-ups in 2017

Tenant	Location	Type	Rented space (approx.)
Papyrus Deutschland	Niehl	warehouse	22,000 m²
Centershop Vertriebs-GmbH	Marsdorf	warehouse	13,400 m²
Logistics service provider	Feldkassel	warehouse	11,000 m²
Clic-Trade	Westhoven	warehouse	10,700 m²
flaschenpost GmbH	Ossendorf	warehouse	5,500 m²
Surrounding Region			
Computacenter AG	Kerpen	warehouse	22,000 m²
Arand Spedition	Bedburg	warehouse	10,700 m²
unknown	Kerpen	warehouse	9,500 m²
manufacturing company	Meckenheim	warehouse	6,400 m²

Greif & Contzen Research, Cologne, September 2017

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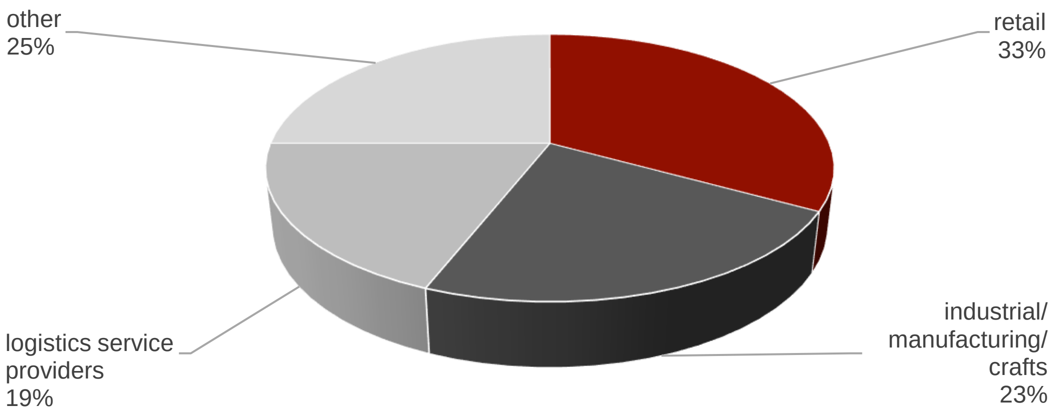
Take-up in Cologne and the surrounding region according to industry, up to September 2017



Greif & Contzen Research, Cologne, September 2017

As in the previous year, the strongest demand came from the retail industry, despite the fact that its share decreased from 55 to 33 percent. Production companies are in second place, in particular due to the major contract concluded by Papyrus Deutschland, followed closely by logistics service providers. In addition to this, there were various further tenants from a wide range of industries. About half of the total turnover of space was realised through rental contracts and construction measures for owner occupation for particularly large units of more than 10,000 square metres each. However, in terms of the number of rental deals and measures for owner occupation that make up the total take-up, more than 70 percent of these transactions were for units of less than 5,000 square metres.

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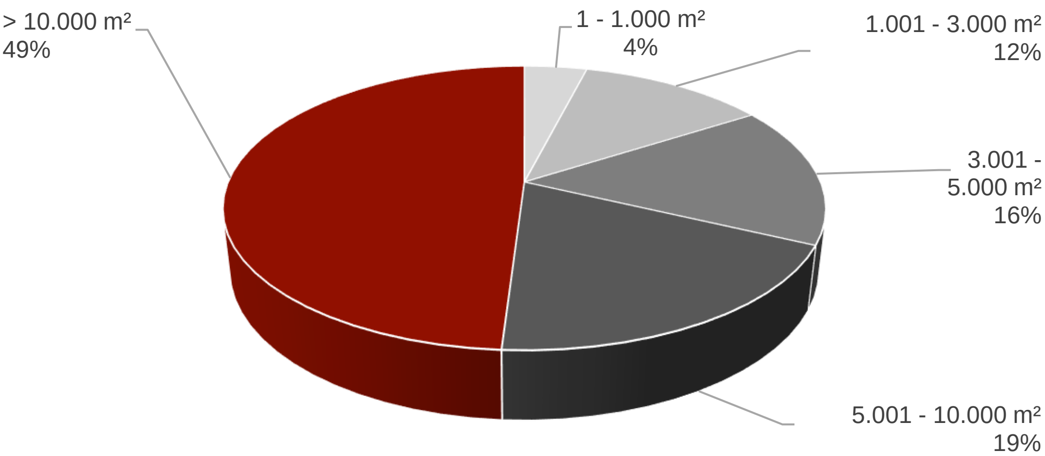
Take-up in Cologne and the surrounding region according to size category, up to September 2017



Greif & Contzen Research, Cologne, September 2017

Vacancies and availability

Vacancies in the logistics region of Cologne have decreased significantly in the past year. Within Cologne's city limits, vacancies decreased by around 19 percent to 130,000 square metres. With around 30 percent, vacant warehouse space decreased even more in the surrounding region, standing currently at about 310,000 square metres. Only a small number of existing properties is currently available. The supply of smaller warehouse units of between 800 and 2,000 square metres has been scarce for a long time. Available space in property development projects is very significant, however, these cater mostly for the market for warehouse units of more than 5,000 square metres.

A total of around 115,000 square metres is currently available in property projects that are due to be completed in the near term in Cologne and the surrounding region. Companies looking for space in a specific location are frequently facing a severely limited selection of suitable properties.

Selection of completions in 2017

User	Location	Warehouse space (approx.)
NEX Logistics, 1st construction phase	Bedburg	20,000 m²
NEX Logistics, 2nd construction phase	Bedburg	20,000 m²
Logistics service provider	Feldkassel	11,000 m²
Archiving services and one further tenant	Wesseling	10,000 m²

Greif & Contzen Research, Cologne, September 2017

Around 70,000 square metres of warehouse space are due to be completed in 2017, about 18 percent less than in 2016. Due to the high workload of construction companies, the start of construction has been delayed in a number of cases and some of these buildings will not be completed until 2018 as a result. A significant increase of construction activities is to be expected for the year ahead. Scheduled measures for space that is already let and for owner occupation alone currently add up to a total of around 100,000 square metres. Further potential space that may be completed is provided by units available in short term property development projects.

Rents

Rents for warehouse space in Cologne's industrial estates are experiencing a noticeable uptrend, owing to strong demand and low availability. Rents between EUR 4.85 and 5.00 per square metres are achieved in new buildings. Prices in the surrounding region range between EUR 2.40 and 4.80 per square metre, depending on the location and quality of the property.

New building in Wesseling © Greif & Contzen 2017

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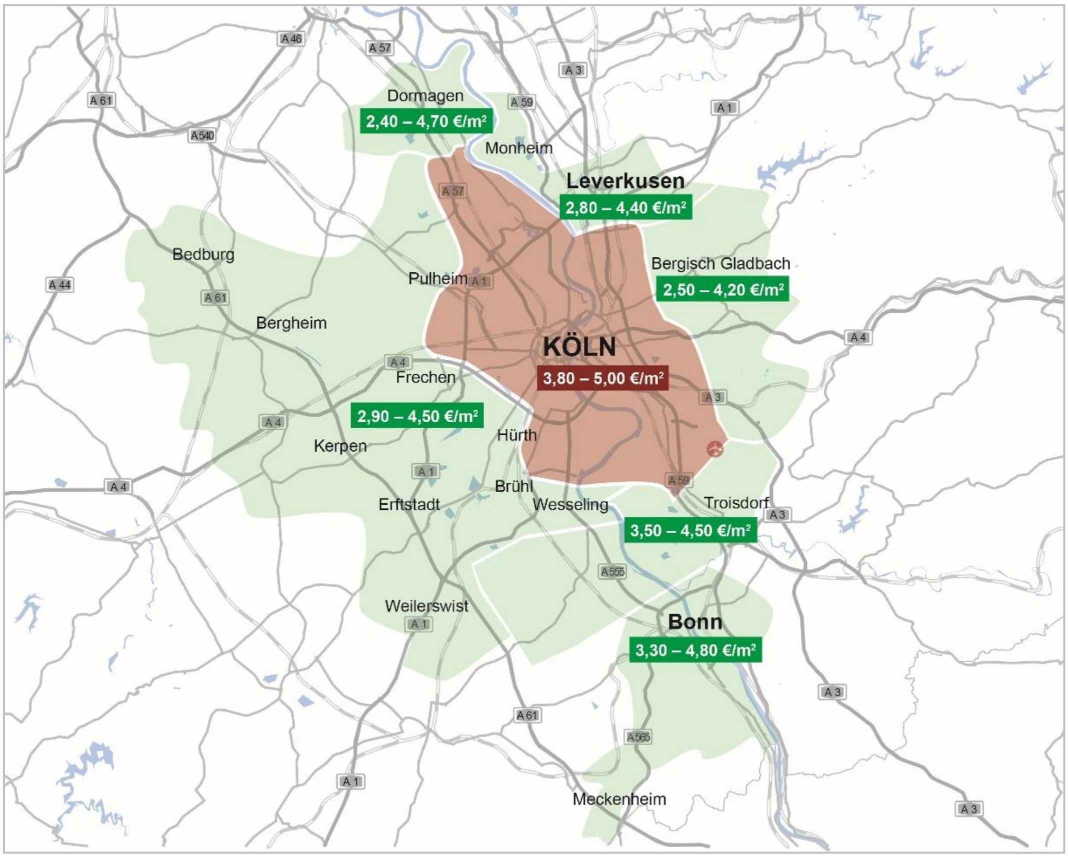

Rent price structure in the logistics region of Cologne © Greif & Contzen 2017

Rents for storage and distribution space in Cologne

New properties		Trend
Warehouse space in industrial estates	4.85 – 5.00 €/m²	↙
Service space	5.50 – 5.75 €/m²	→
Adjacent office space	8.00 – 8.50 €/m²	→

Existing properties		Trend
Warehouse space in industrial estates	4.30 – 4.50 €/m²	↙
Warehouse space in other locations	3.80 – 4.00 €/m²	→
Service space	5.20 – 5.50 €/m²	→
Adjacent office space	7.00 – 8.00 €/m²	→

Greif & Contzen Research, Cologne, September 2017

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Investment market for logistics properties

The past few years have been characterised by high demand and a low availability of properties for sale in the logistics region of Cologne. However, transactions in the investment market have increased significantly during the first half of the year, due to three major national portfolio deals. As part of the portfolios by REIT Hansteen, Blackstone-Plattform Logicor and a fund by Gramercy, at least seven properties changed hands by September 2017. Among these buildings is the logistics company Hammer's warehouse that was completed as recently as 2015 and has a size of around 100,000 square metres. On the purchasing side there were a fund by AXA IM as well as a Chinese sovereign wealth fund and once again Blackstone with their joint venture partner M7. Various smaller and medium sized industrial properties were bought by further investors as well as by local owner-occupiers.

Selection of sales 2017

Buyer	Location	Warehouse space (approx.)
China Investment Corporation (Portfolio)	Bedburg (surrounding region)	100,000 m²
AXA Investment Managers (Portfolio)	Frechen (surrounding region)	18,300 m²
CBRE Global Investors	Brühl (surrounding region)	16,000 m²
Blackstone and M7 (Portfolio)	Köln-Gremberghoven	11,000 m²
	Troisdorf (surrounding region)	7,400 m²
	Dormagen (surrounding region)	5,200 m²

Greif & Contzen Research, Cologne, September 2017

The net initial prime yield for logistics properties has increased further compared to the previous year, standing currently at 4.9 percent. At this point, there is little differentiation between yields in the major metropolitan regions. Cologne's very tight market for industrial building land is currently experiencing a significant increase of prices.

Purchase prices for industrial building plots according to location

Location	Purchase price	Trend
City of Cologne	130 to 185 EUR/m²	↗
City of Bonn	85 to 205 EUR/m²	↗
City of Leverkusen	85 to 115 EUR/m²	→
Rhein-Berg-Region	45 to 120 EUR/m²	→
Rhein-Erft-Region	30 to 145 EUR/m²	→
Rhein-Sieg-Region	20 to 130 EUR/m²	→

G&C Research, Property market reports by the Property Evaluation Committee, Boris NRW, September 2017

Logistics region Cologne: Location data and infrastructure

With more than three million inhabitants and an overall efficient and dense road, rail, air and waterway network, Cologne and the cities and districts of the surrounding region form an economic location of national significance. The logistics industry constitutes an essential component of the metropolitan area. It provides for consumer and industrial goods to be transported, transshipped and stored. Cologne with its surrounding area is among the largest transshipment centres for combined transport on the European continent.

Structural data for Cologne and the surrounding region

	Population*	Trade tax rate	Social security employees	Unemployment rate**
City of Cologne	1,082,000	475	549,000	8.6 %
City of Bonn	325,000	490	173,000	6.9 %
City of Leverkusen	166,000	475	64,000	8.2 %
Rhein-Berg-Region	283,000	424-490	73,000	6.1 %
Rhein-Erft-Region	468,000	430-535	138,000	6.8 %
Rhein-Neuss-Region	450,000	444-455	145,000	5.9 %
Rhein-Sieg-Region	596,000	428-525	154,000	5.4 %
Total / average	3,370,000		1,296,000	Ø 6,8 %

*Population figures for independent towns as of 31 Dec. 2016, for regions as of 31 Dec. 2015 owing to the fact that the official statistics have not yet been updated

**August 2017 Greif & Contzen Research, Cologne, September 2017

Cologne Bonn Airport - third biggest freight airport in Germany
Freight volume 2016: approx. 786,000 t (+3.8 % compared to 2015)
Approved to operate 24 hours
International hubs of FedEx and UPS

Eifeltor freight depot - among Europe's biggest transshipment centres for combined transport
Max. handling capacity: approx. 400,000 freight units p.a.

Terminal Nord - transshipment station for combined transport
Part A1 for up to 42,000 freight units p.a. has been operating since 20 June 2015
The 2nd construction stage provides for an extension to around 94,000 freight units by 2019
Max. handling capacity when fully completed: approx. 250,000 freight units p.a.

Industrial Rhine docks Cologne - Niehl I and II, Deutz and Godorf
Freight handled in 2016: 12.9 million t (+0.8 % compared to 2015)

Motorways – the motorway ring Cologne is an intersection of important west-east and north-south-axes: A1, A3, A4, A57, A59, A555, A559

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New building on Wankelstrasse, Kerpen © Greif & Contzen 2017

Outlook

The economic upswing continues. According to a number of research institutes, economic performance is expected to increase by around 1.8 percent in 2017. Forecasts for 2018 are ranging between 1.6 and 2.0 percent. An important driver of the economy is the strong domestic consumption - both by the state and by private households. Companies are also proving to be more willing to invest. This is noticeable in particular in the area of construction activities. While the ifo index of economic climate is currently below the record high reached this summer, it continues to indicate a very positive business sentiment.
The sentiment indicator for the logistics industry by IFW Kiel has been above the long term average since the final quarter of 2016. The economic climate among industrial and retail logistics businesses has deteriorated during the second quarter of the year, however, the underlying trend continues to be expansive.
The Chamber of Industry and Commerce sentiment indicator for small and medium sized companies in the Cologne region depicted an optimistic scenario this summer, despite the fact that the traffic infrastructure is widely considered to be in need of repair. The general economic conditions for the logistics region of Cologne are overall favourable. Future development of the market for warehouse space and the investment market is going to depend largely on whether plots and buildings that match the demand will be available. The demand is there.

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