Industrial Property Market

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Logistics Region Cologne I Bonn

October 2018

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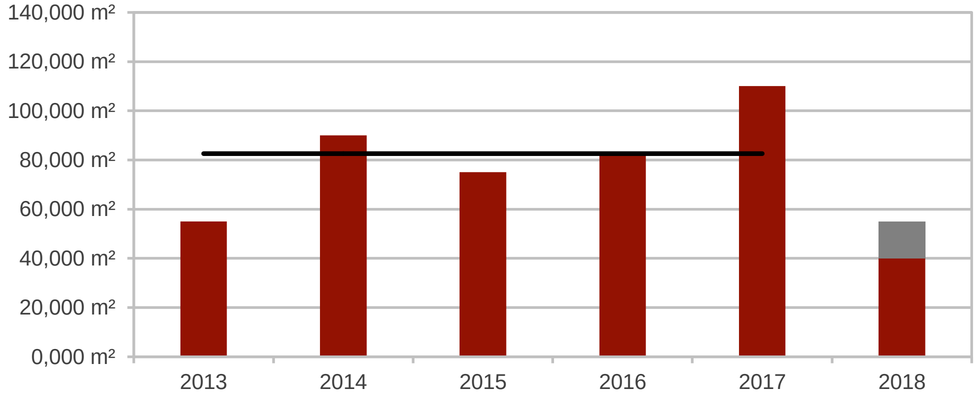
High take-up in the logistics region – significant supply deficit in the City of Cologne

A total of around 280,000 square metres of warehouse space were taken up in the logistics region Cologne I Bonn during the first nine months of 2018. This corresponds to a significant increase compared to the 220,000 square meters taken up in the same period of the previous year. This increase is due to the fact that the municipal territories of Euskirchen and Rheinbach were included in the considered area for the first time. It is expected that a total of around 330,000 square metres will be taken up by the end of December.

Many space requests cannot be met due to a lack of available space, even though there is high demand from users. This is particularly true for the City of Cologne. Only around 40,000 square meters of warehouse space were taken up within the city limits by the end of the third quarter, almost all of which was located in existing properties. The biggest individual unit taken up had a size of around 8,600 square metres. It is likely that by the end of the year, take-up figures will be below the five-year-average by about one third.

The vast majority at more than 80 percent of space taken up, was located in towns in the greater logistics region Cologne I Bonn. In Rheinbach DHL Supply Chain Management took up construction of a 35,000 square metre distribution centre for the energy management company Eaton. Offergeld Logistik took up around 32,000 square metres of warehouse space in Frechen. An online retailer rented around 24,000 square metres in Dormagen. Construction of the recently completed building had been taken up on a speculative basis. This approach has meanwhile become more common, as related vacancy risks have decreased due to the supply shortage.

Take-up of warehouse space in the City of COLOGNE
development, five-year-average, forecast



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Selection of take-ups in 2018

Take-ups in Cologne	Location	Type	Rented space (approx.)
hofstein GmbH (online retailer)	Gremberghoven	warehouse	8,600 m²
flaschenpost AG	Gremberghoven	warehouse	5,400 m²
JCL Logistics	Eifeltor	warehouse	4,500 m²
WHEELS Logistics	Gremberghoven	warehouse	4,500 m²
Take-ups in the Logistics Region Cologne I Bonn			
DHL Supply Chain Management	Rheinbach	warehouse	35,000 m²
Offergeld Logistik	Frechen	warehouse	32,000 m²
unknown (online retailer)	Dormagen	warehouse	24,000 m²
Coca-Cola Germany	Kerpen	warehouse	12,000 m²
Grieshaber Logistik	Bedburg	warehouse	11,000 m²
DPI GmbH (trade)	Brühl	warehouse	10,000 m²
Hellmann Worldwide Logistics	Kerpen	warehouse	9,500 m²
Peisker Logistik GmbH	Troisdorf	warehouse	8,700 m²
Woltu GmbH	Monheim	warehouse	7,000 m²
unknown	Dormagen	warehouse	5,300 m²
Flexx Fitness	Hürth	warehouse	5,100 m²

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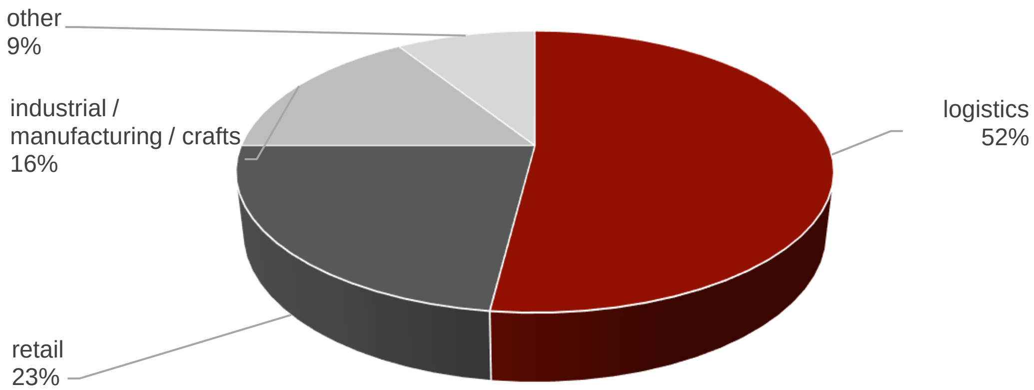
Take-up in the Logistics Region Cologne I Bonn according to industry, up to October 2018



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With rental contracts concluded for numerous large-scale and medium-sized units, logistics service providers accounted for half of the total space taken up over the past nine months. They are the most important group of users and their share was more than twice as big as in the same period of the year before. By hiring external logistics service companies, the manufacturing industries are able to avoid operating their own facilities. In view of the scarcity of space, this is increasingly becoming a challenge.
Around 30 % of space taken up was realised in the form of leases for smaller and medium-sized units as well as properties for owner-occupation of up to 5,000 square metres.

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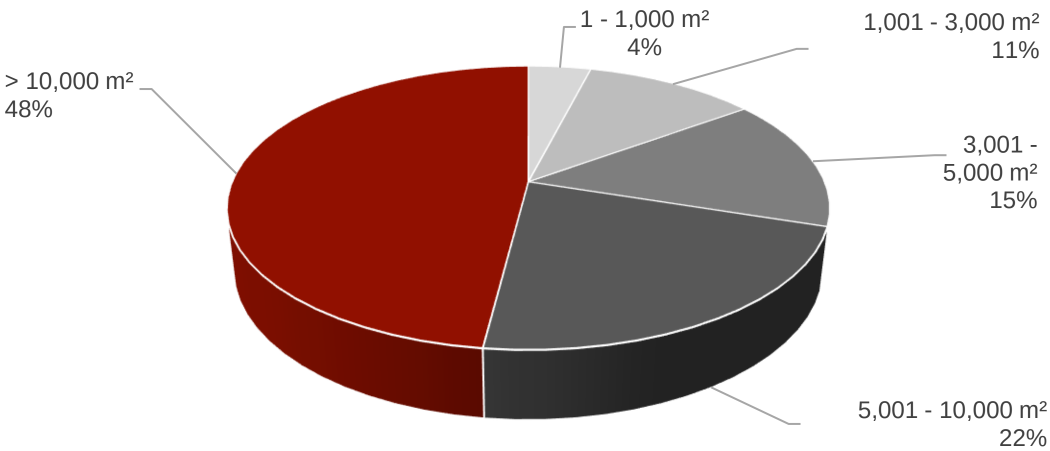
Take-up in the Logistics Region Cologne I Bonn according to size category, up to October 2018



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Vacancies and availability

Vacancies in the City of Cologne have dropped to around 65,000 square metres of warehouse space, which is around half the amount available at the same time last year. Only few existing properties are currently available in most parts of Cologne. A slightly bigger selection of warehouse units is still available in the districts Bickendorf, Porz-Gremberghoven and Rodenkirchen. Apart from a few exceptions, the units available for rent are smaller than 5,000 square metres.

Vacancies in the greater logistics region decreased even more noticeably, from around 310,000 to only 145,000 square metres of warehouse space. Property development projects and the designation of new industrial areas are therefore becoming ever more important to be able to meet the companies' demand for space, also in the future.

Selection of completions in 2018

User	Location	Warehouse space (approx.)
Computacenter and further tenants	Kerpen	48,000 m²
Papyrus and vanWylick	Niehl	33,000 m²
unknown (online retailer)	Dormagen	27,000 m²
NEX Logistics	Bedburg	25,000 m²
speculative	Bickendorf	21,000 m²
REWE	Niehl	16,000 m²
WEG Germany and further tenants	Bergheim	11,000 m²

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Around 230,000 square metres of warehouse space are scheduled for completion in 2018. Construction activities have thus more than tripled compared to 2017. In a number of cases those activities reflect major take-ups of the previous year. Various construction projects have been announced for 2019. These include premises for owner-occupation, as well as property developments some of which are commenced on a speculative basis.

Rents

With vacancies declining, rents have increased in many parts of the logistics region. The usual range of rental prices for existing buildings in industrial parks in Cologne increased to between EUR 4.40 and EUR 4.60 per square metre. A rising trend can also be observed for newly constructed properties. Rents above the current prime rent of EUR 5.00 per square metre are asked for in a number of cases. Rental levels have also increased in the logistics region, in particular in Dormagen, Leverkusen, Bergisch Gladbach and the Rhein-Erft region.

New building in Niehl © Greif & Contzen 2018

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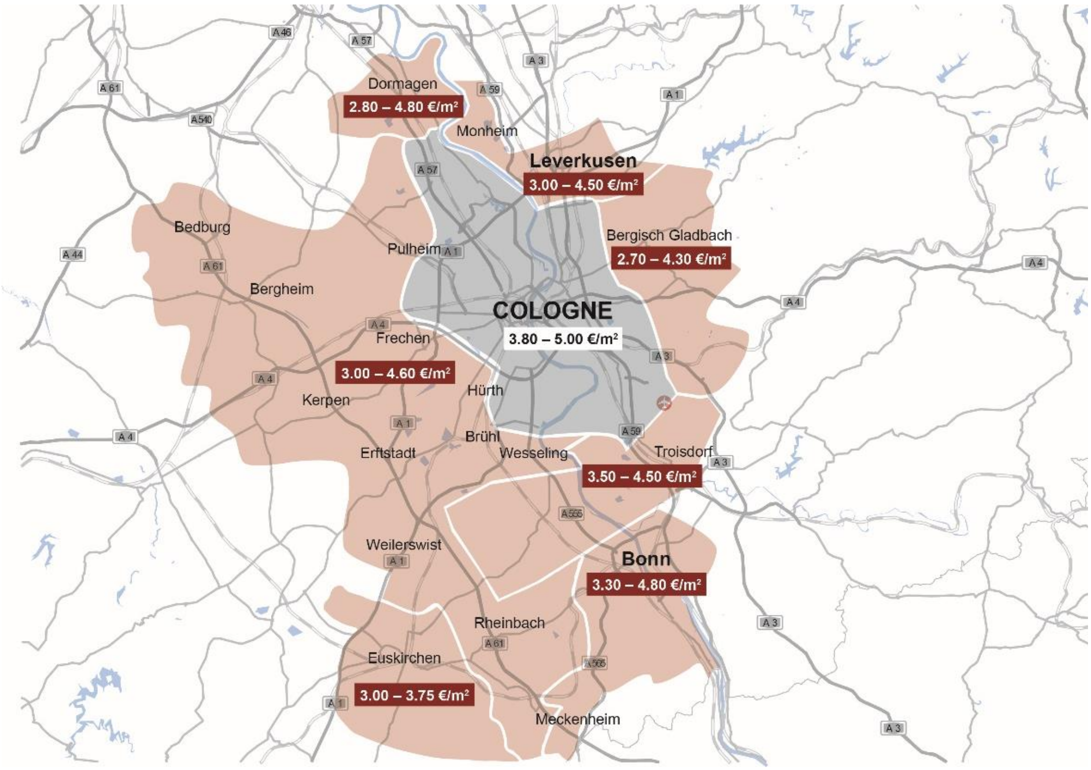

Rent price structure in the logistics region of Cologne I Bonn © Greif & Contzen 2018

Rents for storage and distribution facilities in COLOGNE

New buildings	**2017**	**Development**	**2018 (Q1-3)**	**Trend**
Warehouse space in industrial estates	4.85 – 5.00 €/m²	→	4.85 – 5.00 €/m²	↗
Adjacent office space	8.00 – 8.50 €/m²	→	8.00 – 8.50 €/m²	→

Existing properties				
Warehouse space in industrial estates	4.30 – 4.50 €/m²	↗	4.40 – 4.60 €/m²	↗
Warehouse space in other locations	3.80 – 4.00 €/m²	↗	3.80 – 4.20 €/m²	↗
Adjacent office space	7.00 – 8.00 €/m²	→	7.00 – 8.00 €/m²	→

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Investment market for logistics properties

As was to be expected, property investments in the logistics region Cologne I Bonn did not reach the previous year's level, since a number of large-scale logistics property portfolios of buildings across Germany had been sold in 2017. Demand from investors is not limited to new buildings. There is also demand for smaller properties for example, that are offered as part of a portfolio, or for properties with older buildings that have significant development potential.
Blackstone took over the MStar Europe portfolio that had been established by the joint venture partners M7 Real Estate and Starwood Capital since 2014. The property portfolio included three industrial parks in Cologne, Dormagen and Pulheim. Blackstone and M7 Real Estate had already been involved in other logistics property transactions in the Cologne I Bonn region in 2017 and 2018, and in one case they acted as joint buyers. Deka Immobilien bought the second building section of the completed logistics centre from Four Parx for around EUR 11.3 million. Back in 2016, Deka Immobilien had already bought the first section with around 17,000 square metres of warehouse space.

Selection of sales 2018

Buyer	Location	Warehouse space (approx.)
Blackstone (portfolio, 3 properties)	Cologne, Dormagen, Pulheim	46,000 m² in total
Alcaro	Frechen (logistics region)	16,000 m²
Frasers Property (portfolio)	Bergheim (logistics region)	11,000 m²
Deka Immobilien	Wesseling (logistics region)	10,000 m²
VPS Packaging (owner-occupier)	Dormagen (logistics region)	5,000 m²

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The net initial prime yield for logistics properties decreased from 4.9 percent in autumn 2017 to currently 4.4 percent. Prices for commercial building land in Cologne continue to soar.

Purchasing prices for commercial building land according to location

Location	Purchasing price	Trend
City of Cologne	150 to 250 EUR/m²	↗
City of Bonn	85 to 210 EUR/m²	↗
City of Leverkusen	100 to 140 EUR/m²	→
Rhein-Berg region	50 to 130 EUR/m²	→
Rhein-Erft region	50 to 150 EUR/m²	→
Rhein-Sieg region	50 to 130 EUR/m²	→

G&C Research, Property market reports by the Property Evaluation Committee, Boris NRW, October 2018

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Logistics Region Cologne I Bonn: location data and infrastructure

Cologne and its surrounding towns and regions form a significant metropolitan area in Germany, with more than three million inhabitants, more than 5,000 industrial companies and a generally highly efficient and dense road, rail, air and waterway network. Industrial companies of the CCI district of Cologne generated a turnover of around 58 billion euros in 2017. The region is therefore Germany's fourth biggest industrial centre. The cathedral city and its surrounding region are also a central European delivery and redistribution hub.

Structural data for the logistics region Cologne I Bonn

	Population*	Trade tax rate	Social security employees	Unemployment rate**
City of Cologne	1,085,000	475 %	567,000	7.9 %
City of Bonn	328,000	490 %	176,000	6.5 %
City of Leverkusen	167,000	475 %	64,000	7.1 %
Rhein-Berg region	283,000	424-490 %	75,000	5.4 %
Rhein-Erft region	467,000	430-550 %	140,000	6.1 %
Rhein-Neuss region	449,000	444-455 %	147,000	5.4 %
Rhein-Sieg region	599,000	428-515 %	159,000	5.0 %
Total / average	3,378,000		1,337,000	Ø 6.2 %
Change since the previous year	+ approx. 0.1 %		+ approx. 3 %	- approx. 0.6 % points

*Population figures as of 31 Dec. 2017
**August 2018

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Cologne Bonn Airport - third biggest freight airport in Germany
Freight volume 2017: approx. 839,000 t (+ 6.7 % since 2016)
Approved to operate 24 hours, international hub 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 second construction stage provides for an extension to around 94,000 freight units in 2019/2020
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 2017: 12.8 million t (-0.7 % since 2016)

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

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New building in Cologne Niehl © Greif & Contzen 2018

Outlook

Germany's economy continues to expand, even if growth has slowed down. Economists expect economic growth of around 1.7 to 1.9 percent in 2018. The research institutes currently expect a growth of between 1.6 and 2.0 percent in 2019. Strong domestic demand continues to be driven by a positive development of the employment market and favourable financing conditions. Germany's export industry continues to expand, however there are a number of significant risks for the future. This is due in particular to possible consequences of a hard Brexit and global trade disputes.

The ifo business climate index has decreased over the course of the year so far, and the ifo/BVL climate index for the logistics industry also decreased during the second quarter of 2018. However, the levels achieved are still high, from a long-term perspective.

The business survey conducted by Cologne's Chamber of Industry and Commerce found the mood among small and medium-sized businesses of the region to be on a similarly positive level as in summer 2017. Willingness to invest has increased slightly.

In summary it can be said that high demand for logistics and industrial properties is likely to continue over the next few months – both from companies needing business premises and from investors. However, the potential for letting and sales is limited by the scarcity of available properties. The highest purchasing price factors achieved increased further in the third quarter. Despite the fact that the prime yield is already on a very low level, it appears quite possible that in the months ahead, further slight decreases of the prime yield may occur in the case of particularly attractive products.

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