

Investment Market Cologne

September 2017

Dear Sir or Madam

Cologne's real estate market is experiencing a very dynamic development in 2017. On the occasion of Expo Real we would like to give you an overview of the most important facts of the first three quarters of the year.

The expansive European monetary policy, low interest rates and strong pressure to invest among institutional investors continue to apply in 2017. The economy is experiencing an ongoing economic upswing. A number of owners of large real estate portfolios have been able to benefit from the favourable conditions, providing the investment market with a wide selection of properties available for sale in this high-price phase. Various real estate transactions were concluded with prices in the three-digit and upper two-digit million euro range. Commercially used properties with a total value of around EUR 1.5 billion changed hands up to the end of the third quarter. This corresponds to an increase by around one third, compared to the same period last year.

Quantum and Proximus bought parts of centrally located Gerling Quartier that are largely designated as office space, as well as adjacent buildings for a total of around 200 million euros. In the district of Braunsfeld, a large portfolio of office buildings was bought by Apollo Global Management and the Silverton Group for more than 100 million euros. Retail properties that changed hands included buildings in prime locations, out-of-town retail stores and the city centre shopping centre DuMont Carré. Another site that was sold for a particularly high price of more than 100 million euros, was the development area and former industrial site by Deutz AG in the district of Mülheim. Shortly thereafter, the buyer GERCHGROUP AG also picked up an ensemble of buildings near Cologne Cathedral and the top shopping areas, including the Senatshotel and the former Carlton Hotel building that was later used by WDR. The buyer intends to develop these buildings, as well.

The previously sharp increase of sales prices for commercial properties has slowed down over the course of the year and net prime yields for commercial and logistics buildings decreased slightly. The rate of return for office buildings remained unchanged. However, there may be further decreases in the fourth quarter. It is to be expected that various further real estate transactions of all size categories will take place before the end of the year. It remains to be seen, whether the record transaction volume of around 1.9 billion euros that was achieved in 2015 may even be surpassed.

Please do not hesitate to get in touch with us, if you have any specific questions regarding Cologne's real estate market.



Yours faithfully



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Selection of major transactions in 2017

Property (location)	Type	Buyer
Gerling Quartier (Altstadt Nord)	mixed use ensemble	Quantum and Proximus
TechnologiePark properties (Braunsfeld)	mostly office space	EPFIII fund
Deutz AG site (Mülheim)	development site	Gerchgroup
DuMont Carré (Altstadt Nord)	shopping centre	Episo 4 fund
IKEA stores (Godorf and Ossendorf)	specialist retail stores	Pradera fund
WDR-Karree (Altstadt Nord)	development site	Gerchgroup
Hohe Strasse 152-154 (Altstadt Nord)	commercial property	Aachener Grundvermögen
Hansestrasse 61-63 (Gremberghoven)	logistics facility	Hansteen

Source: Greif & Contzen Research, Cologne, September 2017

Office buildings

Around 260,000 square metres of office space were let in 2017 so far. A total result of 320,000 square metres or more is likely to be reached by the end of the fourth quarter. Jointly with 2011, this would be the second best year-end result for Cologne's office space market in the past decade. Vacancies continue to decrease and they currently account for only 4.0 percent of the overall stock of office space. The average rent has increased by about five percent since January, standing currently at EUR 12.80 per square metre. Top rents of up to EUR 25.00 were achieved in the premium segment.

The biggest transaction of the year to date was concluded by Immofinanz AG selling Gerling Quartier and adjacent buildings for around 200 million euros. Apollo Global Management and the Silverton Group bought 17 buildings for a fund. They have a total rental area of around 123,000 metres and are located in TechnologiePark in Cologne's district Braunsfeld. In 2016, a portfolio of around 116,000 square metres had already been bought in TechnologiePark by the Swedish investor EQT Real Estate for 188 million euros. The prime yield of 3.8 percent has been unchanged since the end of last year.

Retail properties

Transaction activities have been particularly dynamic in the investment market for retail properties in 2017 so far, accounting for about 28 percent of the total investment volume. A British fund acquired the revitalised property DuMont Carré on Breite Strasse for a price in the three-digit million euro range. The building comprises more than 20,000 square metres of retail space as well as office and residential units. As part of taking over an IKEA portfolio, a fund by Pradera bought the IKEA stores in Godorf and Ossendorf. A number of retail buildings in the prime shopping areas of Schildergasse and Hohe Strasse also changed hands. The prime yield decreased to 3.5 percent. The highest rent is generated on Wallrafplatz at currently EUR 270 per square metre. Hohe Strasse has been subject to increased user fluctuation, causing rental prices to decrease rather than increase.

Industrial, storage and logistics properties

Between January and September 2017, around 100,000 square metres of warehouse space were taken up by tenants and owner-occupiers within Cologne's city limits. In the logistics region including the surrounding area, there was a total take-up of about 220,000

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square metres. It is likely that a total of around 300,000 square metres will be taken up in the region by the end of the year, thus surpassing the 2016 result by 50 percent.

Investment transactions in the logistics region of Cologne have increased significantly, with three major sales of national logistics portfolios taking place during the first half of the year. At least six properties in Cologne and the surrounding region changed hands in this context. The real estate portfolio that was acquired by the sovereign wealth fund China Investment Corporation included the 100,000 square metre warehouse of the forwarding company Hammer in Bedburg that was completed as recently as 2015. The net prime yield has decreased from 5.25 to 4.90 since the same period last year.

Hotels

Cologne's hospitality industry registered more than three million overnight stays during the first half of 2017. This corresponds to an increase by around 13 percent compared to the same period in the previous year. This increase was facilitated by the ice hockey world cup and a strong trade fair year. A number of hotel operators have announced that they will be opening new hotels. Another Motel One and an Adina Apartment Hotel will be opening in direct vicinity of the trade fair grounds. Hotel Capitol with 190 rooms is scheduled to open on Hohenstaufenring in 2019.

Hotel properties in Cologne are a sought after asset class, however, there is little availability of properties in the investment market. There have only been a few transactions in 2017 so far. As part of the sale of Gerling Quartier, Quantum and Proximus acquired a 25hours hotel with 200 rooms that is about to be completed. In the district of Mülheim, funds by Invesco bought the Holiday-Inn-Express hotel with 107 rooms as part of a portfolio transaction. The property was last traded in 2014.

Apartment buildings

The strong population growth continues to be a motor for demand for housing in Cologne. However, completion figures are well below the demand, leading to a very tense market situation. Rents have increased compared to the previous year. Availability is increasing significantly in the segment of micro apartments. There is currently a number of property development projects providing for very small apartments with convenient traffic links in different locations of Cologne. However, the completion rate in this niche market is not going to cover the overall demand surplus. Rents are going to increase further.

Among investors, there continues to be great demand for apartment buildings. Small apartment buildings in good residential areas are sold for prices ranging between 20 and 28-fold their annual net rent. In individual cases, prices can be even higher.

Condominiums

Prices for condominiums continue to increase in most submarkets. The purchasing interest from owner-occupiers is growing, owing to Cologne's thriving employment market and the increasing rents. At the same time, investment in real estate continues to be promoted by low interest rates and a lack of alternative investment opportunities.

Established areas in the south and west of Cologne remain very popular. There is also great interest in urban city centre districts as well as Ehrenfeld and Nippes. Furthermore, demand is growing in districts on the right bank of the Rhine that are close to the city centre and have good traffic links, in particular in Deutz and Mülheim.

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