

## Press Release

Köln, 19.03.2018

### **Plenty of movement in Cologne's real estate market**

According to the latest analysis published by the Cologne-based real estate experts Greif & Contzen, properties worth a total of five billion euros were sold in Cologne in 2018, across all types of real estate.

This result corresponds to the second highest annual turnover achieved in the past decade. It could be realised thanks to national and international players of the real estate industry, who continue to introduce large amounts of capital into the city's market, despite the scarce availability of properties.

The best result of the past ten years was achieved in Cologne's real estate market in 2015, when properties for a total of around 5.5 billion euros were traded. At around five billion euros, 2018 fell short of this record level by half a billion, however, it was still the second most successful year, following a turnover of 4.9 and 4.7 billion euros in 2016 and 2017, respectively.

On the occasion of the international real estate trade fair MIPIM that was held in Cannes last week, the property experts from Greif & Contzen published their latest investment market report for their home city. Greif & Contzen represented Cologne's property market during this meeting of the international real estate industry. In conversations with national and international investors it became clear that Cologne continues to be of great interest. "As a major city with a growing population and good business prospects for local companies, Cologne is high up on the wish lists of investors," says Thorsten Neugebauer, Head of Investment at Greif & Contzen.

### **Transaction volume declines due to a lack of supply**

In their new investment market report, the researchers from Greif & Contzen point out that office and retail buildings accounted for a significant part of the total turnover realised in Cologne's investment market in 2018, at more than 1.3 billion euros (previous year: around one billion euros). The total transaction volume for all types of commercial real estate was around 2.1 billion euros in 2018. This corresponds to a decrease by around nine percent, compared to 2017 when a record volume of 2.3 billion euros was generated with commercial properties. The main reason for this was a lower availability of products.

This is also true for the condominium market, where the investment volume decreased further. Following a total transaction volume of about 1.35 billion euros in 2017, properties for 1.26 billion euros changed hands in this segment in 2018. This decline, too, was due to a shortage of available products. On the one hand completion figures declined, at a time when Cologne's housing market was already characterised by growing demand. On the other hand, owners of condominiums tend to speculate that prices will rise even further, or

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they simply do not have any investment alternatives, and are therefore unwilling to sell at this point.

The property experts from Greif & Contzen have found that the investors' demand for real estate products remains so high that owing to the ongoing product shortage, willingness has increased to consider investing into second-order locations and properties with structural development potential, as well as into premium properties.

### **Yields range between 2.9 and 4.2 percent**

The yields that buyers can achieve with their investments in Cologne's property market have been declining noticeably for a number of years now. Depending on the type of property, prime yields range between 2.9 percent for retail buildings and 4.2 percent for logistics facilities. The prime yield for office buildings has dropped to 3.2 percent.

Investors seem to expect that the market situation is not going to change in the near term, and that capital investment opportunities with good securities and higher yields will remain scarce. Accordingly, they are willing to compromise when it comes to property deals. One example of this is a 20,000 square metre office building on the Deutz side of the city centre: Korean investors accepted a low initial yield, to take up the property that features a long-term lease with a public authority as the tenant.

### **Office buildings: property developments play a central role**

The transaction volume realised with office and retail buildings increased by more than 30 percent to around 1.3 billion euros in 2018. The property development "WALLARKADEN" in the Kölner Ringe submarket alone, accounted for 140 million thereof. A group of pension funds bought the site opposite the historic Hahnentorburg, on which the former fragmented structures are being replaced with state-of-the-art office space. WALLARKADEN was sold at an early construction stage, in the form of a forward transaction.

### **Retail properties: declining prime yield**

The total transaction volume generated with retail properties in 2018 was around 320 million euros, and thus accounted for about 15 percent of the total investment turnover realised with commercial real estate. The biggest transaction in the retail segment in 2018 was accounted for by the Kaufhof department store on Hohe Strasse, with an estimated purchasing price of more than 150 million euros. The building changed hands as part of the corporate take-over of Galeria Kaufhof GmbH.

The prime yield for retail buildings in Cologne's prime retail location dropped from 3.2 down to 2.9 percent in 2018. When it comes to retail parks and shopping centres, the situation is a little less extreme: prime yields of currently around 4.4 and 4.0 percent are currently achieved in these segments.

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### **Industrial and logistics properties: property developers anticipate appreciation potential**

The transaction volume realised with industrial and logistics properties within Cologne's city limits in 2018, remained on the same level as the year before, at more than 150 million euros. If the surrounding region is also taken into account, sales came to a total of around 280 million euros. This corresponds to a decrease by about 35 percent compared to 2017. However, 2017 had been a very busy year for transactions regarding logistics facilities, in which a number of particularly large portfolios with properties across Germany changed hands, and these sales also had an effect on Cologne's logistics region.

Following another decrease in 2018, the prime yield is now down to around 4.2 percent. Nevertheless, German and international investors continue to be very interested in this asset class. Logistics and industrial properties were picked up not only by funds and other large-scale end investors, but also by individual property development firms counting on the properties' value appreciation potential that they intend to realise through their own construction, conversion, and extension measures.

### **Hotels: further new buildings announced**

A comparably high number of hotel properties were sold in Cologne in 2018, including facilities with several hundred rooms. The highest purchasing price of around 120 million euros was achieved with the Maritim Hotel. The same capital investment company from whose fund the Maritim Hotel was sold, took over the Dorint Hotel near the trade fair grounds for one of its specialist funds. Another fund bought the design hotel "Urban Loft" that is currently under construction on the former premises of the Gaffel brewery in the Eigelstein neighbourhood near Cologne's central railway station.

In addition to purchases of existing properties, capital is also invested into Cologne's hotel market through new construction projects and refurbishment measures. Announced upcoming building projects include hotels at Cologne I Bonn Airport and in Hybrid Park in the district of Braunsfeld. The Lindner Hotel on Magnusstrasse, the Park Inn by Radisson on Innere Kanalstrasse, and the Radisson Blu in Deutz, are on the list of recently renovated or modernised hotels.

### **Apartment buildings: transaction volume on par with previous year**

The number of apartment buildings sold, declined for three years in a row between 2015 and 2017, before it increased again in the past year. However, this had no impact on the transaction volume that remained roughly on the same level as the year before. This suggests that properties with a lower rental income were traded in 2018 in particular.

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### **Condominiums: prices continue to rise, albeit at a slower pace**

The transaction volume realised with condominiums and part-ownership decreased for the second consecutive year in 2018. Turnover declined by around six percent to a total of 1.26 billion euros. The number of transactions dropped by around eight percent.

Purchasing prices for condominiums have increased continuously in recent years. In 2017, an average of around 4,500 euros per square metre were paid in new buildings constructed after 2010. Prices increased further in 2018, however, not at the same pace as had been the case in previous years.

### **Outlook: eliminating bottlenecks**

Cologne continues to grow, and local companies enjoy good business prospects. What sounds – and indeed is – very positive, also has its downsides: the housing and office space markets are experiencing a supply shortage. Owners of properties in Cologne tend to be rather unwilling to part with their real estate.

The scarce availability of tradeable properties is met by investors that are desperate to invest into real estate, due to the continuously low interest rates. On the plus side: if a sufficient supply of properties becomes available to the market, turnover in the billion euro range can be realised in Cologne also this year, and in future years. Purchasing prices are unlikely to decrease over the next few months. Quite the contrary: further price increases are likely to occur in certain property segments. This assessment is supported by a recent study conducted by the Society of Property Researchers, Germany (gif), according to which Cologne is among the few housing markets in major German cities featuring international significance, a low investment risk, and great demand from many different groups of investors.

At this point it appears very likely that the shortage will persist, especially in Cologne's housing market. The reason for this is that the number of units for which planning permission is granted and that are completed, is far below the demand of 6,000 residential units per year that was identified by the city administration. Planning is currently underway for new large-scale residential areas – and in individual cases for entire new neighbourhoods – in a number of locations. However, it will take years before these can be occupied. In the case of the large urban development sites on the edges of Zündorf and Rondorf, the first necessary step is to create sufficient traffic infrastructure. And this needs to happen quickly. After all, the last thing Cologne needs at this point, are further bottleneck situations – whether it be in approval procedures, financing, project ideas and implementation, or in real life on the city's roads.

### **Beraten. Bewerten. Vermitteln. Verwalten.**

Die Leistungen der über 100 Spezialisten bei Greif & Contzen decken die gesamte Wertschöpfungskette bei Immobilien ab – von der Marktanalyse und der Beratung bei Projektentwicklungen über die Bewertung, maßgeschneiderte Vermarktungskonzepte und zielgruppengerechte Vermittlung bis hin zur technischen und kaufmännischen Verwaltung. Das gilt

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Seit 40 Jahren vertrauen Eigentümer, Nutzer und Investoren auf das Wissen, die Qualität und die Diskretion von Greif & Contzen. Spezialisiert ist Greif & Contzen auf hochwertige und renditestarke Immobilien in der Großregion Köln. Über German Property Partners ist das Unternehmen in ein bundesweites Netzwerk renommierter Immobiliendienstleister eingebunden.

Die Entwicklung der Immobilienmärkte analysiert Greif & Contzen in regelmäßig erscheinenden Büro- und Investmentmarktberichten.

Bei Fragen wenden Sie sich bitte an:

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