

Investment Market Cologne

October 2019

Dear Sir or Madam,

The conditions on the financial markets continue to be favourable for real estate investments, despite the fact that general economic conditions have weakened in recent months. On the occasion of Expo Real, we have summarised the most important facts of Cologne's investment market over the first three quarters of 2019 for you.

Commercially used properties with a total value of around 1.5 billion euros were sold up to the end of September. A number of large-scale transactions was concluded and further substantial real estate deals are expected in the fourth quarter. Investors are increasingly inclined to harness the high level of prices, and to sell on properties they only bought a few years ago to realise profits.

A few portfolios in the three-digit million euro range were sold in the past nine months. By purchasing the Millenium portfolio from Generali Versicherung, CommerzReal acquired three office properties in Cologne for its Hausinvest fund. Among these is the "Constantinhöfe" ensemble in Cologne-Deutz with around 19,000 square metres of rental space.

The Swiss family office East Guardian bought the mixed-use ensemble "Kölnisch Quartier", formerly known as "Barthonia Forum". The original production site of the famous Eau de Cologne 4711 is now home to office space, as well as retail and residential units.

A specialist fund by Bayerische Versorgungskammer bought a micro apartment building with around 7,000 square metres of residential space in the form of a forward deal. The building changed hands for around 60 million euros and is located near the technical college in the district of Deutz. Owing to the fact that the property is going to be used mostly as (student) accommodation, this investment was not included when calculating the transaction volume realised with commercial properties.

In the area of commercially used real estate, the high level of prices has increased further over the course of the year to date. Prime yields have remained stable, but many owners and sellers of office buildings have been able to benefit from higher rents. Purchasing prices for condominiums have increased dynamically, once again. High demand from real estate users and the scarcity of secure investments allow for purchasing prices to remain high. Considering the current direction of the European Central Bank's interest rate policy, even a slight further decrease of yields appears feasible.

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



Yours faithfully

Theodor J. Greif

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Selection of major transactions in 2019

Property (location)	Type	Buyer
„Millennium“ portfolio (Deutz, 2x Altstadt)	3 office buildings	Commerz Real, open-end fund
“Kölnisch Quartier” (Ehrenfeld)	mixed use	East Guardian
“Principal” portfolio (Altstadt, Neustadt)	2 hotels	AXA Investment Managers
Habsburgerring 9-13 (Neustadt-Süd)	hotel (“Steigenberger”)	Aroundtown
Project (Ehrenfeld)	mixed use	Commerz Real, specialist fund
Ludwigstrasse 2-6 (Altstadt-Nord)	office building	AXA Investment Managers
Konrad-Adenauer-Str. 13 (Rodenkirchen)	office building	Aroundtown
8.5 ha industrial site (Sürth)	development site	Bauwens and Metropol
Von-der-Wettern-Strasse 27 (Porz)	office building	CLS Holdings
Mittelstrasse 20-24 (Altstadt-Nord)	residential and commercial building	Real I.S., specialist fund

Source: Greif & Contzen Research, Cologne, October 2019

Office buildings

The investment volume generated with office properties over the first three quarters of the year was around 520 million euros. This corresponds to a share of around 37 percent of the total investment transaction volume. Most properties were sold for prices in the lower to middle two-digit million euro range. The highest purchasing price of the year to date was achieved with “Constantinhöfe”, even if the transaction has to be considered in the context of the entire portfolio. The British investor CLS Holdings bought a property in Gremberghoven for around 30.5 million euros. A number of further large-scale transactions are expected to be concluded before the end of the year, and it is therefore likely that the market share of this real estate segment will increase over the next few months. The prime yield stands at 3.2 percent.

Retail properties

Retail properties for a total of around 110 million euros were traded this year to date. Among the properties sold were commercial buildings in the city centre in particular. A specialist fund bought a residential and commercial building on Mittelstrasse, featuring more than 2,000 square metres of retail space. The prime yield for retail buildings in prime locations is 2.9 percent.

Industrial, storage and logistics properties

The investment market for industrial and logistics properties within Cologne’s city limits has been characterised mostly by smaller transactions in the year to date. The transaction volume was around 60 million euros. Owner-occupiers and private investors were involved in many of the transactions concluded. A number of larger logistics properties was sold in the greater logistics region Cologne | Bonn, including a cross-dock facility with around 12,000 square metres of warehouse space in Hürth. With an overall transaction volume of around 100 million euros, investment activities in the entire region have been on a lower level than the year before, when portfolio transactions played a greater role in the market. The prime yield stands at 4.2 percent.

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Hotels

Various newly constructed hotels and refurbishments of existing buildings have provided for high investment volumes realised in this asset class over the past few years. About 320 million euros have been invested in hotel facilities in 2019 to date, corresponding to a share of around 21 percent of the total transaction volume. As part of a portfolio transaction, AXA Investment Managers bought the Mondial am Dom hotel and the NH-Hotel in the MediaPark with a total of more than 400 rooms from Principal Real Estate. Aroundtown bought the Steigenberger Hotel on Habsburgerring. The hotel has more than 300 rooms and was extensively renovated in 2016.

Cologne's hotel market continues to grow. Around 3.1 million overnight stays were registered in Cologne in the first half of 2019, almost five percent more than in 2018. While hotel projects were initiated in particular in the city centre in recent years, projects announced in 2019 to date tend to be located in areas with a stronger commercial focus, most notably in Braunsfeld and Mülheim.

Apartment buildings

Availability continues to be scarce in Cologne's housing market and prices continue to rise. So far this year, a number of housing associations and property developers have at least, announced new construction projects on a substantial scale, featuring between over 100 and 500 residential units each. However, these projects often provide for a mixture of rental apartment buildings and condominiums. Realising these plans will take several years, the demand surplus will therefore continue to exist in the near future. According to the Statistical Office for NRW, planning permission for around 1,200 residential units was granted in the first half of 2019. While this corresponds to an increase of more than 20 percent compared to the same period last year, it is still foreseeable that the actual demand of 6,000 new residential units per year will not be met. The increase of rents is thus going to continue. Small apartment buildings in good and very good residential areas are sold for between 23 and 30-fold their annual net rent. In individual cases, prices can be even higher.

Condominiums

It has meanwhile become foreseeable that a number of larger housing projects accounting for more than 100 condominiums each, will come onto the market within the next couple of years. However, for the time being, the general supply shortage of the housing market continues to exist also in this segment. Prices rose further over the first six months of 2019 as a result. The average price for newly constructed condominiums was EUR 5,100 per square metre, and EUR 3,200 per square metre for existing apartments. This corresponds to an increase of around nine percent in new buildings, and five percent in existing buildings, compared to 2018.

Outlook

Sales processes are currently under way for a number of large office buildings, as well as a few real estate portfolios and forward deals. These transactions may be concluded before the end of the year. Investors continue to show great interest and the willingness to pay high prices, even for properties outside the city centre. It is therefore likely that the transaction volume realised to date will increase significantly in the fourth quarter of 2019, giving rise to a possible year-end result of two billion euros or more. Owing to the current approach followed by the European Central Bank, prime yields might be compressed even further.

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