

# Investment Market Cologne

09|2020  
Q1-Q3



GREIF & CONTZEN

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**Introduction**

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Overview

Investment market

Outlook

Further information

**Dear readers,**

Market activities have been increasing rapidly once again, following the outbreak of the corona pandemic and the related lockdown that had caused an involuntary break to the activities in Cologne's investment market, which up to this point had been very dynamic. While there are few transactions concerning hotels and retail properties, office buildings, building land and residential properties are just as sought-after as before the recent crisis, and assessment criteria have not become any less favourable so far. There has even been a further decline of the net prime yield for logistics properties.

A total transaction volume of around EUR 1.2 billion has been realised with commercial real estate in Cologne in the first nine months of 2020. There have been no transactions with sales prices above EUR 100 million to date. Without a doubt, the market performance decreased compared to the same period last year, in which properties worth EUR 1.5 billion changed hands. It will not be possible to match the record result of EUR 3.1 billion reached at the end of 2019. Various further sales are, nevertheless, expected for the fourth quarter, including large office buildings. The total investment turnover is therefore going to increase significantly.

Following a short overview of the market as a whole, this report is going to cover the most important developments in the asset classes of office, retail, logistics and apartment buildings, as well as condominiums in the year to date. We are going to conclude with an outlook for the final quarter of 2020.

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



**»No corona-related price reductions can be observed in the area of office property investments so far.«**

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**Thorsten Neugebauer**

Head of Investment

Greif &amp; Contzen Immobilienmakler GmbH

Introduction

**Overview**

Investment market

Outlook

Further information

# Overview

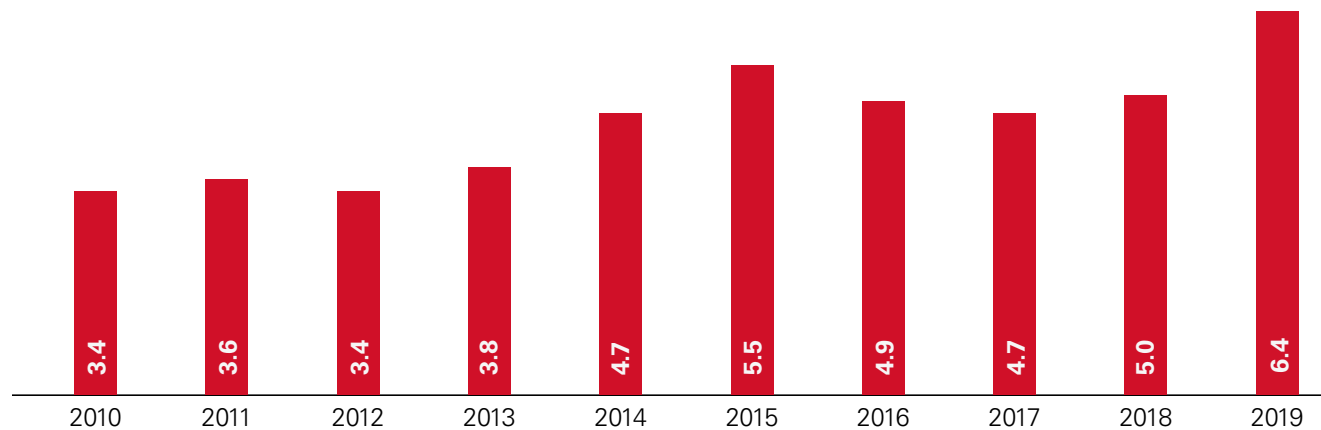
## Investment market summary

Taking all real estate types into account, an average annual transaction volume of EUR 5.3 billion has been realised in Cologne's investment market in the past five years. A record level of around EUR 6.4 billion was reached in 2019, thanks to a particularly strong second half of the year. The committee of experts of the City of Cologne has record-

ed a transaction volume of around EUR 2.4 billion across all property types. This corresponds to a slight increase compared to the same period last year. The year to date has been characterised by a low number of property sales at continuously high prices.

**approx. EUR 2.4 billion**  
transaction volume Q1 and 2  
2020 (all real estate segments)

### Transaction volume development 2010 – 2019 | in billion €



Source: Committee of experts of the City of Cologne 2020 (modified regarding 2013, 2014, 2015, 2018)

Introduction

**Overview**

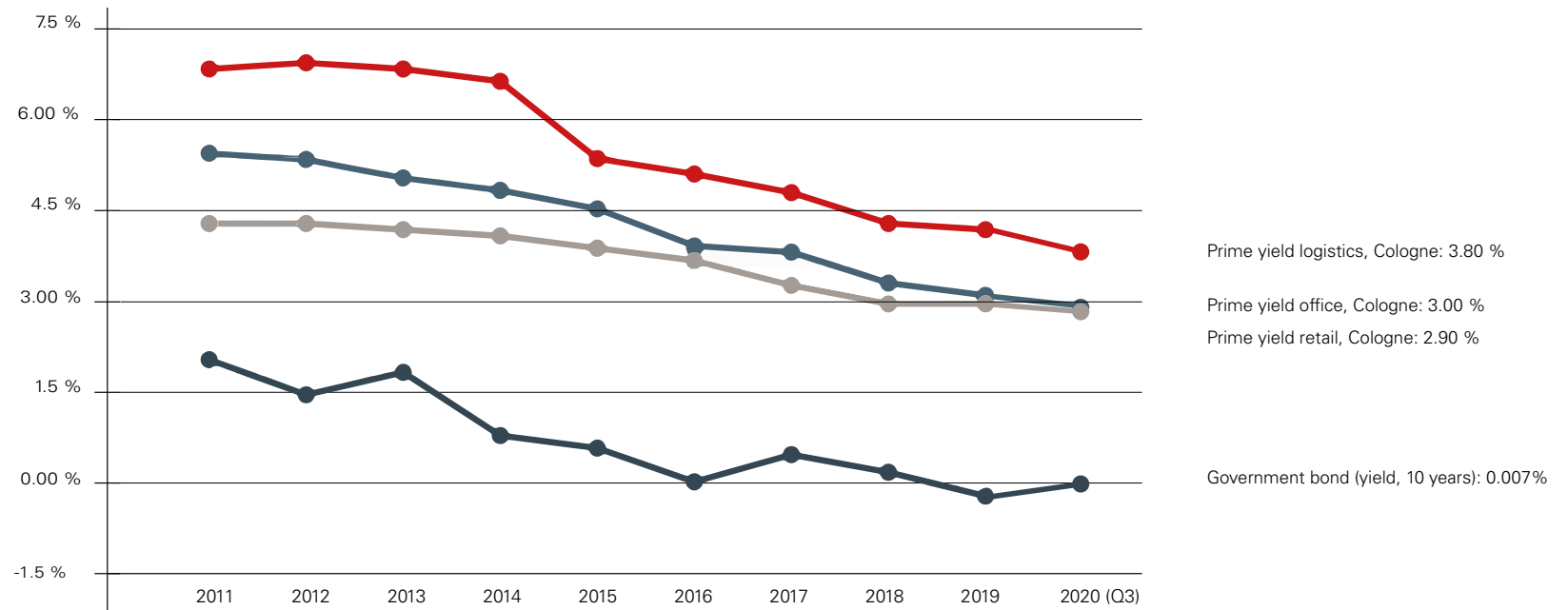
Investment market

Outlook

Further information

# Overview

**Yields in the fourth quarter of 2011 – 2020 (Q3) | in %**



Source: Greif & Contzen Research, Cologne, September 2020

Introduction

**Overview**

Investment market

Outlook

Further information

# Overview

## Commercial properties: a lack of sales in the three-digit million euro range

'Haus am Rudolfplatz' is an office and retail building in a prominent location next to the historic Hahnentorburg. It was sold to a specialist fund while still under construction. The French investors Advenis Real Estate bought a portfolio of three office buildings for an open-end fund. Gerchgroup

sold an 11,000 square metre construction plot for a mixed-use ensemble in the development area 'Deutz Quartiere'. The sale of the 'real' supermarket in Cologne-Eil by SCP Group was among the fee large-scale transactions regarding retail properties.

**approx. EUR 1.2 billion**  
investment transaction  
volume realised with com-  
mercial properties in Q1 to  
Q3 2020

### Selection of major transactions in 2020

Property (location)	Type	Purchasing price in million EUR
Edmund-Rumpler-Strasse 6 (Gremberghoven), Stolberger Strasse 307-311, Widdersdorfer Strasse 401 (both in Braunsfeld)	office space (portfolio)	estimated >60
Haus am Rudolfplatz (Neustadt Nord)	office and retail building	estimated >60
Construction plot MU 1.2 of 'Deutz Quartiere' (Mülheim)	mixed use	estimated >30*
Rudolf-Diesel-Strasse 32 (Eil)	consumer market	estimated >20
Neumarkt 35-37 (Altstadt-Süd), Siegburger Strasse 229c (Deutz)	office space (portfolio)	unknown
Cologneo II (Mülheim)	development site	unknown
Bachemer Strasse 29-33 (Lindenthal)	hospital	unknown
Longericher Strasse (Bilderstöckchen)	development site	unknown
Zündorfer Strasse (Porz)	development site	unknown

\* for the commercial part only

Introduction

Overview

**Investment market****Office space market**

Retail properties

Industrial and logistics

Hotels

Apartment buildings

Condominiums

Outlook

Further information

# Office properties

## Busy market activities in sub-markets on the outskirts

With a transaction volume of around EUR 670 million, office properties accounted for a share of around 56 percent of the total turnover realised in the commercial properties investment market in the first three quarters of 2020.

AEW paid one of the highest purchasing prices for an individual property for 'Haus am Rudolfplatz'. The building with its around 6,300 square metres of office space is scheduled for completion in 2021. On Neumarkt and Siegburger Strasse, AEW sold two office buildings to Tristan Capital's 'Curzon Capital Partners 5' fund. The French investors Advenis Real Estate bought a portfolio of three office buildings for the open-end fund 'CPI Eurovalys'. Two of these buildings are located in Cologne-Braunsfeld. This district has emerged as an office investment and development hotspot. The third property of the package was sold for around EUR 33 million and is located in Airport-Businesspark in Cologne-Gremberghoven. This submarket has also enjoyed busy market activity over the past year. A new office building was already completed here this year, and a letting contract for a unit of around 18,000 square metres in the new development project 'QUADRA' was closed with AOK Rheinland / Hamburg. Furthermore, a number of smaller and medium-sized office properties have been sold, most of which are located outside the city centre.

On the whole, no negative impact of the corona pandemic could be observed to date with regard to investor demand and purchasing prices for office properties. The net prime yield remains unchanged at 3.00 percent. Office properties in other attractive towns near Cologne, such as Bonn or Hürth are also sought-after.

**3.00 %**

prime yield on office buildings Q3 2020



Sold in 2020: office ensemble including a new building on Wolters-Kluwer-Strasse in Hürth

Introduction

Overview

**Investment market**

Office space market

**Retail properties**

Industrial and logistics

Hotels

Apartment buildings

Condominiums

Outlook

Further information

# Retail properties

## Restrained activities on the highstreet

Retail properties for a total of only around EUR 60 million have been sold in 2020 to date. This corresponds to a decrease by about 45 percent compared to the same period last year.

Only a few retail buildings changed hands, and these were mostly located in the city centre (such as on Ehrenstrasse). Among the few bigger properties sold was the real,- supermarket in Cologne-Eil that SCP Group passed on from Metro AG to Kaufland and Edeka in the context of bigger package sales.

The current decrease of the transaction volume reflects the crisis of inner-city retailing. Over the past few years, this crisis had already led to businesses being given up, to vacant stores and decreasing rents, even in Cologne's prime locations. The corona pandemic has caused this development to accelerate and intensify further. Rent levels are under pressure in many places. It is impossible to tell at this point, what the long-term letting situation on the highstreet is going to look like. Investors have been showing a reluctant attitude, as it still remains to be seen, which retail tenants are going to survive the often massive drops in sales in the non-food retail industry. Cologne's top shopping areas continue to have great and diverse usage potential, nevertheless. A modern and sustainable utilisation concept is essential to be able to continue achieving the prime yield of 2.9 percent on retail buildings.

**2.90 %**

prime yield on retail buildings Q3 2020



'Haus am Rudolfplatz' with about 2,800 square metres of retail space

Introduction

Overview

**Investment market**

Office space market

Retail properties

**Industrial and logistics**

Hotels

Apartment buildings

Condominiums

Outlook

Further information

# Industrial and logistics properties

## Higher transaction volume in the entire region

Industrial and logistics properties for a total of EUR 120 million were traded within Cologne's city limits over the course of the year to date. The transaction volume achieved in the first three quarters of the year before was therefore exceeded significantly. The majority of transactions concerned properties with a plot size of less than 5,000 square metres. However, a few much bigger properties were also sold. A total transaction volume of around EUR 240 million has been realised in the greater Cologne|Bonn logistics region. About EUR 100 million had been turned over in the same period of the year before.

One of the highest prices was realised with a new building in Kerpen with a size of around 28,000 square metres that also include office space. The property was added to a specialist fund by LIP Invest. Osmab Holding bought a portfolio comprising four logistics properties of about 10,000 square metres each that are located in Frechen and Kerpen. Euskirchen has also emerged as a focus area of investment activities, alongside Frechen and Kerpen. LaSalle Investment Management's specialist fund 'E-Regi' had already picked up a new large-scale logistics centre here at the end of 2019. This year, Deutsche Industrie REIT bought a production and logistics facility with a size of around 42,000 square metres from a paper manufacturer, in the form of a sale and lease-back transaction. Furthermore, a specialist fund invested in a new Amazon warehouse with around 7,200 square metres of storage space.

Investor demand for logistics properties continues to be much greater than the volume of products available.

Compared to the same period last year, the prime yield decreased from 4.20 to now 3.80 percent.

**3.80 %**

prime yield on logistics properties Q3 2020



'SEGRO CityPark' is home to state-of-the-art logistics and light industrial space



Introduction

Overview

**Investment market**

Office space market

Retail properties

Industrial and logistics

**Hotels**

Apartment buildings

Condominiums

Outlook

Further information

# Hotels

## Hotel investments plummeted in 2020

Following the particularly strong years 2018 and 2019, in each of which hotels worth about EUR 300 million were sold, this market segment plummeted in the year to date. No sales transactions have been realised in Cologne so far.

As in the area of retail, the lockdown caused massive revenue losses in the hotel sector, too. Trade fairs and conferences were postponed, cancelled, transformed into online events or at the very least reduced considerably in scale. The number of overnight stays recorded in Cologne in June was about 75 percent lower than was the case a year earlier. In July and August, occupancy rates were back to about 40 percent, thanks mostly to city tourism. Nevertheless, the previously booming hotel industry is now characterised by over-capacities. Operation with low occupancy rates, increased hygiene measures and new regulations is difficult to realise from a financial point of view. Some smaller owner-operated hotels are facing the thread of closure. Landlords have to anticipate a loss of letting income and operators becoming insolvent. It is impossible to tell, how long it is going to take for the accommodation market to return to normal.

There are currently a number of hotel projects under construction and in planning stages that have not yet been sold to a final investor. These are located in the city centre as well as in other districts of Cologne. While a few institutional investors have announced their intentions to make use of the current situation to increase their hotel investment activities, many are going to remain reluctant and to wait.

**no transactions**  
in Q1-3 2020



The centrally located Mgallery Mondial am Dom Cologne hotel

Introduction

Overview

**Investment market**

Office space market

Retail properties

Industrial and logistics

Hotels

**Apartment buildings**

Condominiums

Outlook

Further information

# Apartment buildings

## Price levels are stable or rising

By the end of the third quarter, investors had spent about EUR 460 million on apartment buildings in Cologne. This corresponds to a decrease by about 30 percent compared to the same period last year.

The outbreak of the corona pandemic initially caused hesitation in owners considering to offer their properties for sale. Supply and price levels have meanwhile stabilised while demand remains undiminished, and transactions have increased considerably also in this segment. In addition to the acquisition of individual properties by private investors, a number of institutional investors have also been active. A specialist fund by Aberdeen bought three planned residential buildings on a development site in Cologne-Ehrenfeld that have a combined total of around 9,000 square metre of residential space. In addition to this, there were some big portfolio transactions. The 'Four West' portfolio that was bought by Domicil Real Estate for around EUR 100 million, for example, comprises buildings across various cities, including more than 100 residential units in the east of Cologne. LEG Immobilien also bought a national portfolio that included 164 apartments in Cologne.

Owing to the corona pandemic, various commercial tenants in apartment buildings (such as restaurant operators) asked for deferral of their rent payments. This happened less frequently for private households with specific losses of rent being the exception. The letting market generally continues to be characterised by excessive demand, positive population forecasts and stable or rising rents. The core range of purchasing price factors is between 17 and 30-fold the

annual net rent.

**17 to 30-fold**

core range of purchasing price factors in 2020



A popular asset for private investors: an apartment building in Cologne-Sülz

Introduction

Overview

**Investment market**

Transactions

Office space market

Retail properties

Industrial and logistics

Hotels

Apartment buildings

**Condominiums**

Outlook

Further information

# Condominiums

## Significant price increases over the course of the year

Condominiums for around EUR 920 million have changed hands in the year to date, almost matching the level achieved in the same period last year. Fewer purchasing contracts were concluded owing to the corona pandemic.

However, this decline was due not to a decrease in demand, but to low availability and to marketing obstacles caused by the lockdown.

Demand for apartments for rent as well as for condominiums generally continues to be excessive. Completions decreased from 3,900 units in 2018 to only 2,200 in 2019. The total of planning permissions granted, development projects announced and of major urban development measures suggest that the supply situation is going to improve eventually. However, the current shortage is going to persist for the next few years. Locations with good infrastructure in the surrounding region are likely to benefit from this situation.

The average purchasing price in Cologne's market, including new and existing buildings, increased to around EUR 3,900 per square metre in 2020. The average price for new builds rose to around EUR 5,700 per square metre, which corresponds to an increase of about EUR 400 per square metre since the start of the year. A big share of new apartments sold was accounted for by developments in the district of Ehrenfeld.

Top prices far above EUR 10,000 per square metre were realised for true premium properties also in 2020. However, this market segment is naturally very small.

**EUR 5,700 / m<sup>2</sup>**

average purchasing price for newly built condominiums



High-quality condominiums on Von-Groote-Strasse

- Introduction
- Overview
- Investment market
- Outlook**
- Further information

# Outlook

## Investor demand remains strong, economic forecasts suggest recovery

The low-interest rate environment and investors' strong pressure to invest continue to provide sound arguments for real estate investments. However, record investment levels as had been achieved in recent years, will not be easily matched owing to the economic disruptions that were caused by the corona pandemic and that affected the retail and hotel industries in particular.

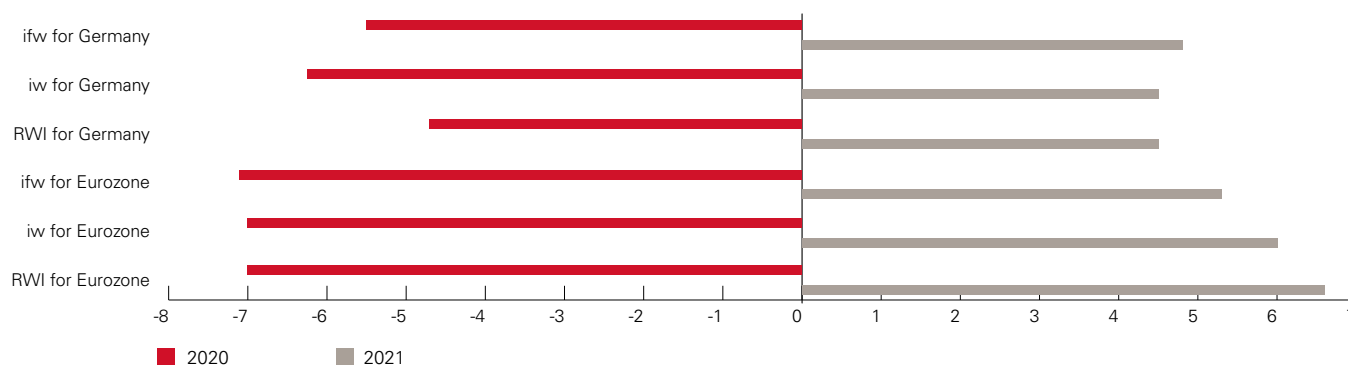
The economic research institutes expect the gross domestic product to decrease by between 4.7 and 6.25 percent in 2020. In many industries a recovery has meanwhile begun. Growth ranging between 4.1 and 5.1 percent is forecast for 2021. A key assumption in this context is that infection figures will remain under control and that there will be no further major increases. According to the ifo business climate index, the mood among companies has on the whole

improved significantly since April.

Sales processes that are currently underway in Cologne's investment market, suggest that a number of large properties – office buildings in particular – are likely to change hands before the end of the year. A total transaction volume of around EUR 2.0 billion could be achieved. Rents for residential, office, industrial and logistics space are currently stable. These property types continue to be sought-after by investors, and no general price reductions have been recorded to date. However, risks related to individual tenants are considered carefully, and may give rise to re-assessments in specific cases. It cannot be ruled out that delayed negative effects of the corona pandemic will affect the real estate market in the medium term.

**approx. EUR 2.0 billion**  
transaction volume commercial properties forecast 2020

### Economic forecasts for Germany and the Eurozone – GDP growth in percent 2020 and 2021



\* ifw: Institute for the World Economy; iw: German Economic Institute Cologne; RWI: RWI - Leibniz Institute for Economic Research

Source: Forecast, as of September 2020, data compiled by Greif & Contzen Research, Cologne September 2020

[Introduction](#)[Overview](#)[Investment market](#)[Outlook](#)[Further information](#)[Glossary](#)[Contact](#)[About Greif & Contzen](#)[German Property Partners](#)[Imprint](#)

# Glossary

## Take-up of space

The take-up of space is the amount of space in buildings that is let in a defined time period (e.g. quarter or reporting period). Whether a transaction is attributed to the respective time period, is determined based on the date the contract was concluded. New leases, sub-leases, renewed leases, and projects for owner occupation are generally taken into account. The following rules apply for the latter two: If a lease is renewed, only the amount of space by which the new unit is bigger than the old one is taken into account. In the case of owner-occupiers, allocation to a time period is determined based on the date of the purchasing contract or the time the actual construction measure was taken up. Lettings to final users in office centres or coworking facilities are not taken into account.

## Rents

The published figures represent basic net rents (excluding service charges and VAT) per square metre of space per month in the respective reporting period. Any additional charges for tax liabilities or compensation for investment costs paid via the rent are not specified separately. The following definitions apply:

- **Maximum rent**  
The highest recorded basic net rent agreed upon in a building, regardless of the size of the unit let. Lettings to final users in office centres or coworking facilities are not taken into account here.
- **Prime rent**  
We use the definition by the Society of Property Researchers, Germany (gif) as a guideline. The prime rent corresponds to the median value of the highest rents realised in the reporting period that must account for

at least three percent of the overall take-up of space. There should be at least three corresponding rental contracts.

- **(Unweighted) average rent**

The arithmetic mean (simple average) and median value of all recorded rental prices from individual letting contracts are calculated. Large-scale lettings are considered in the same way as small rental units. The average rent is usually specified as a rounded value between the two measured values.

- **Weighted average rent (according to unit size)**

The rental prices of all leases concluded are weighted according to the size of the respective rental unit, and the mean value is calculated. To do so, the unit size and rent price of each letting are multiplied with each other. The total sum of these products is then divided by the total amount of space let.

## Prime yield

The attainable prime yield is the initial yield that can be achieved with a state-of-the-art property with a long-term standard lease (creditworthy tenant) in a very good location. It is indicated as the initial net yield in percent, i.e. as the ratio between the gross purchasing price and the annual rental income minus non-apportionable ancillary costs.

## (Investment) transaction volume

The transaction volume is the sum total of purchasing prices of properties sold within Cologne's city limits in the respective time period. Transactions are assigned to a certain time period, based on the date the contract was signed.

[Introduction](#)[Overview](#)[Investment market](#)[Outlook](#)**Further information**[Glossary](#)**Contact**[About Greif & Contzen](#)[German Property Partners](#)[Imprint](#)

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**GREIF & CONTZEN**

Introduction  
 Overview  
 Investment market  
 Outlook

#### Further information

[Glossary](#)

[Contact](#)

#### About Greif & Contzen

[German Property Partners](#)

[Imprint](#)

# We are Greif & Contzen

## Your partner for all real estate endeavours

We are real estate consultants, brokers, managers and surveyors. Around one hundred property experts from all relevant fields form teams to meet the respective requirements, and to provide you with a sound basis for decision-making in any real estate related matters. For more than 40 years now, we have been successfully using this approach in our activities in Cologne, Bonn, and the entire metropolitan Rhineland region.

Our expertise is characterised by strong regional links. After all, there are two crucial aspects in a market for durable goods such as real estate: profound knowledge of the development and particularities of the market, and excellent relations with decision makers.

Greif & Contzen is your experienced and reliable partner, if you are looking for real estate expertise in the Cologne|Bonn region.

#### 1976

the year Theodor  
 J. Greif started his one-man  
 business as an estate agent



Introduction

Overview

Investment market

Outlook

**Further information**[Glossary](#)[Contact](#)[About Greif & Contzen](#)**[German Property Partners](#)**[Imprint](#)

# German Property Partners

## Local expertise - across Europe

Greif & Contzen is a member of German Property Partners, a network of leading commercial real estate agents. We are therefore able to provide outstanding market know-how and expertise in Germany's top 7 cities, as well as in Britain and the Netherlands. The service spectrum offered by German Property Partners covers all aspects of commercial real estate use. Property transactions, requests for commercial space for rent, CREM (corporate real estate management) and property research are all part of the network's standard range of services. The German Property Partners also provide further real estate services such as equity financing for property development projects, property management, banking and financial services as well as fund and asset management.

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[Introduction](#)[Overview](#)[Investment market](#)[Outlook](#)

---

**Further information**[Glossary](#)[Contact](#)[About Greif & Contzen](#)[German Property Partners](#)

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**Imprint**

# Imprint

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