

Office Space Market Cologne

07|2021



GREIF&CONTZEN

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Dear readers,

Following a challenging start of the year, the economy is now back on the path to recovery. In the year to date, Cologne's office space market benefited from high demand for space from public facilities. Several transactions concerning a total of over 30,000 square metres took place in the first quarter alone.

Around 140,000 square metres were taken up by the end of the first six months of 2021. Around 95,000 square metres had been taken up in the first half of 2020. Vacant office space has increased to about 260,000 square metres over the course of the pandemic to date. The increase recorded this year was accounted for in particular by a few large units that were vacated. Rental levels remained stable, nevertheless.

Alongside vacancies, the amount of space available for subletting has also increased. Some companies have taken measures to reduce the amount of office space used. However, even when many employees are working from home, businesses cannot dispense of all on-site activities. Many office users are still working on a decision regarding the circumstances of their future activities. In our latest **focus topic** we are therefore addressing the following questions:

What will be the future role of working from home?**What are the latest office layout trends?****How is demand going to change in Cologne's office space market?**

Please get in touch if you have any questions about Cologne's office space market, or would like to share your feedback with us.



»The COVID-19 pandemic does not make office buildings redundant, but it encourages a transformation.«

Andreas Reul

Head of Office Properties

Greif & Contzen Immobilienmakler GmbH

Office Space Market Cologne Q2 2021



140,000 m²

TAKE-UP OF SPACE

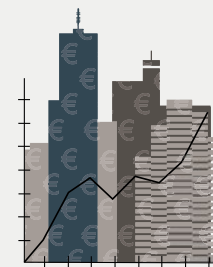
Compared to the same period last year, take-up of office space increased by almost 50 percent in the first half of 2021.



260,000 m²

VACANT SPACE

A number of larger existing units became available over the first half of the year. The vacancy rate rose to about 3.3 percent.



€ 26.00 per m²

RENT PRICE LEVEL

Rent prices remain stable, with a prime rent of around EUR 26.00/m² and an unweighted average rent of around EUR 15.00/m². The highest rent realised was EUR 29.50/m² (maximum rent).



WORKING FROM HOME

Working from home has gained importance, but offices will remain the central workplace, also in the future. The latest questions in this regard are addressed in a dedicated chapter of this report.



OUTLOOK

Take-up of space could match the pre-crisis level in 2021. However, vacancies are likely to increase further. Lower rents or higher incentives are not to be expected, nevertheless.

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Office space market Cologne – key figures, development, and forecast

	2017	2018	2019	Development 2019/2020	2020	Trend	Forecast 2021
Take-up (000's m²)	310	310	290	↓	230	↑	290
Existing space (million m²)	7.8	7.8	7.9	↗	8.0	→	8.0
Completions (000's m²)	95	62	160	↓	75	↗	100
Vacant space (000's m²)	280	200	185	↗	230	↑	290
Vacancy rate in %	3.6	2.6	2.3	↗	2.9	↑	3.6
Maximum rent (in €/m²)	26.50	25.00	29.00	↘	28.50	↗	29.50
Prime rent (according to gif) in €/m²	21.50	23.00	26.00	→	26.00	→	26.00
Average rent (weighted according to unit size) in €/m²	13.70	15.00	16.70	↘	16.50	↗	17.30
Average rent (mean value) in €/m²	13.00	13.00	14.00	→	14.00	↗	15.00
Employees* (000's) (as of June)	553	569	583	↘	580	↘	570
Unemployment rate in % (as of June)	8.5	7.7	7.9	↑	9.6	↘	9.5

* employees contributing to social insurance

Source: Greif & Contzen Research, Cologne July 2021

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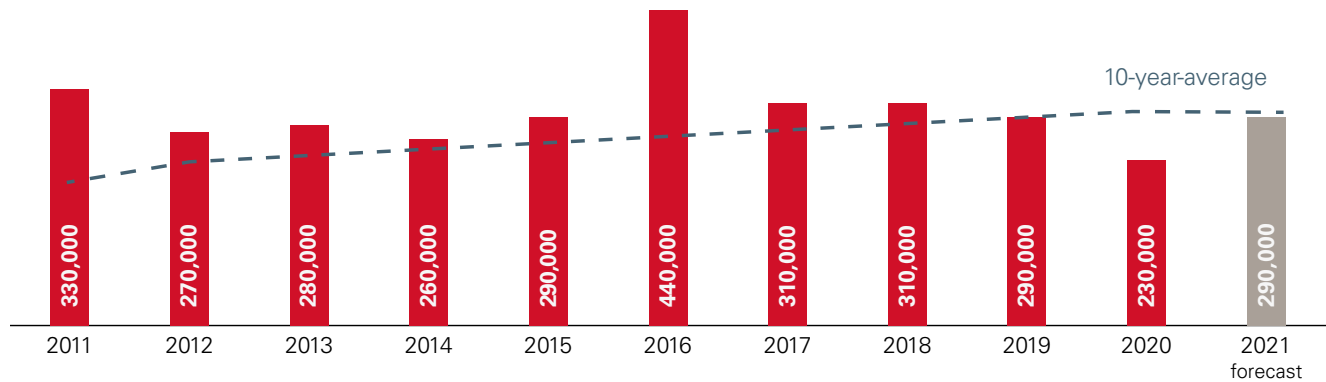
Several large units were taken up by public facilities

Around 140,000 square metres of space were taken up in the first half of 2021. This corresponds to an increase by about 47 percent compared to the same period last year. The pre-crisis level reached in the first half of 2019 (145,000 square metres) was nearly matched. The biggest unit had a size of around 19,000 square metres and was taken up in the submarket of Ehrenfeld.

Two rental contracts were closed with federal authorities in the submarket of Braunsfeld. The units are about 16,100 and 12,000 square metres big. Two other federal institutions took up large units in the submarkets Gremberghoven and Ossendorf. Further important groups of office users included law firms and higher education institutions that took up four units of around 3,200 to 5,000 square metres each.

140,000 m²
take-up of space Q1 – Q2 2021

Take-up of office space: development 2011 – 2021,10-year-average and forecast 2021 | in m²



Source: Greif & Contzen Research, Cologne July 2021

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Selection of significant units taken up in 2021

User	Status	Office space in m²
Unknown (Ehrenfeld)	Existing space	approx. 19,000
Federal authority (Braunsfeld)	Existing space	approx. 16,100
Federal authority (Braunsfeld)	Development project	approx. 12,000
Federal authority (Gremberghoven)	Existing space	approx. 5,000
Academy of Media Arts Cologne (Innenstadt Nord)	Existing space	approx. 5,000
CBH Rechtsanwälte (law firm, Kölner Ringe)	Development project	approx. 4,700
Bundesanzeiger Verlag GmbH (publisher, Ossendorf)	Development project	approx. 3,400
KRAUS GHENDLER RUVINSKIJ Rechtsanwälte (law firm, Innenstadt Süd)	Development project	approx. 3,400
IU Internationale Hochschule GmbH (higher education, Innenstadt Nord)	Existing space	approx. 3,200
Physiosport PACE GmbH (physio therapy, Mülheim)	Development project	approx. 2,200

Source: Greif & Contzen Research, Cologne July 2021

approx. 34 %
of the ten biggest transac-
tions were accounted for by
developments

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Rent levels are backed up by a number of factors

The COVID-19 crisis caused the increase of prices that could be observed in Cologne in recent years to slow down, but rents did not decrease. The prime rent remains unchanged at EUR 26.00 per square metre. The unweighted average rent even rose from EUR 14.00 to EUR 15.00 per square metre in the first half of the year, while the average rent weighted according to unit size increased from EUR 16.50 to EUR 17.30.

This increase is in part due to a number of large-scale contracts concluded with public users. Owing to VAT arrangements, higher headline rents are usually agreed upon with this group of tenants.

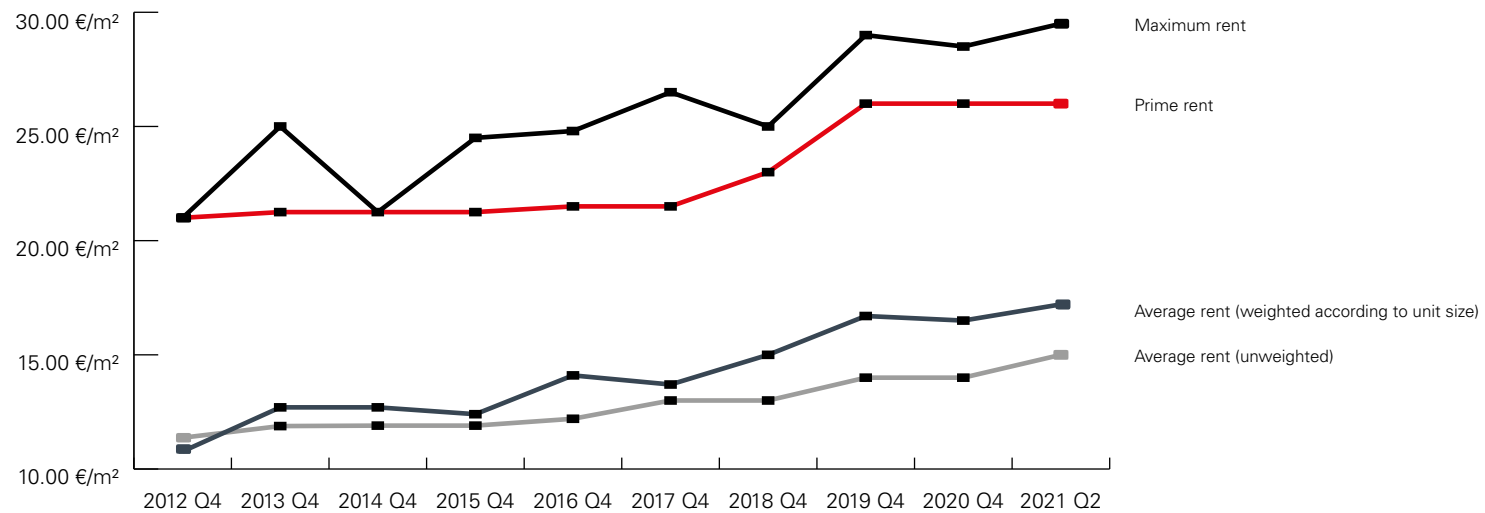
However, tenants from other user groups also signed contracts in the upper price segment. The highest rent achieved was EUR 29.50 per square metre. Space in good locations and in mint condition is still sought-after and availability is low. This has an impact on rent prices.

In addition, construction costs have increased considerably in recent months, causing owners of existing buildings and property developers to have less leeway when it comes to price reductions.

EUR 26 /m²

prime rent Q1 – Q2 2021

Development of office space rents 2012 to Q2 2021 | in €/m² per month



Source: Greif & Contzen Research, Cologne July 2021

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Several completions expected in the second half of the year

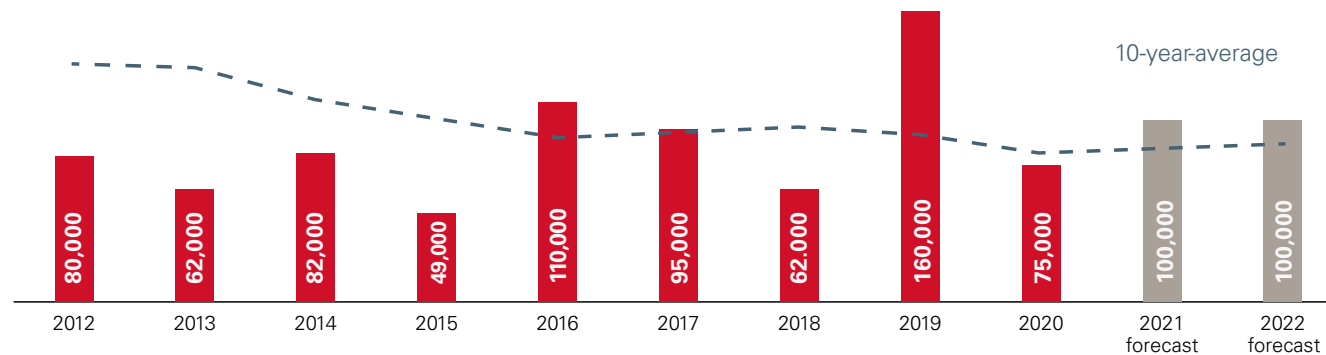
Around 45,000 square metres of office space were completed in Cologne in the first half of 2021. A large share thereof was accounted for by the new buildings 'Haus am Platz' and 'Patiohaus' in the I/D Cologne development area in the submarket of Mülheim. Further projects are likely to follow suit in the second half of the year, such as the 'WALLARKADEN' complex in the

Kölner Ringe submarket, the repositioning of existing space in the 'Rheinzeit' ensemble, and the new building 'Ehrenwert' in Cologne-Ehrenfeld as the most prominent examples. On the whole, it is expected that construction projects with a total of around 100,000 square metres of office space will be completed both this year and next.

200,000 m²

new office space scheduled for completion 2021 – 2022

Development of completions 2012 – 2020 and forecast 2021 – 2022 | in m²



Source: Greif & Contzen Research, Cologne July 2021

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Significant construction activity 2021 (properties under construction)

Property/submarket	Rental space in m²	Completion
Kite (Ossendorf)	around 23,000	2022
CENTRAAL (Deutz)	around 19,700	2024
QUADRA (Gremberghoven)	around 18,000	2022
OVUM (Braunsfeld)	around 16,100	2022/2023
I/D Cologne 2nd construction phase (Mülheim)	around 16,000	2021/2022
WALLARKADEN (Kölner Ringe, Rudolfplatz)	around 12,000	2021
Rheinzeit (Innenstadt Nord)	around 11,000	2022
Ehrenwert (Ehrenfeld)	around 10,000	2021
COCO (Ossendorf)	around 8,600	2021
Haus am Rudolfplatz (Kölner Ringe, Rudolfplatz)	around 6,300	2022
Kupferloft (Mülheim)	around 5,100	2022

Source: Greif & Contzen Research, Cologne July 2021

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Increase of vacancies due to a small number of large units

Vacant office space increased from around 230,000 to around 260,000 square metres in the first half of 2021. The vacancy rate currently stands at around 3.3 percent and is thus nearing the 2017 level.

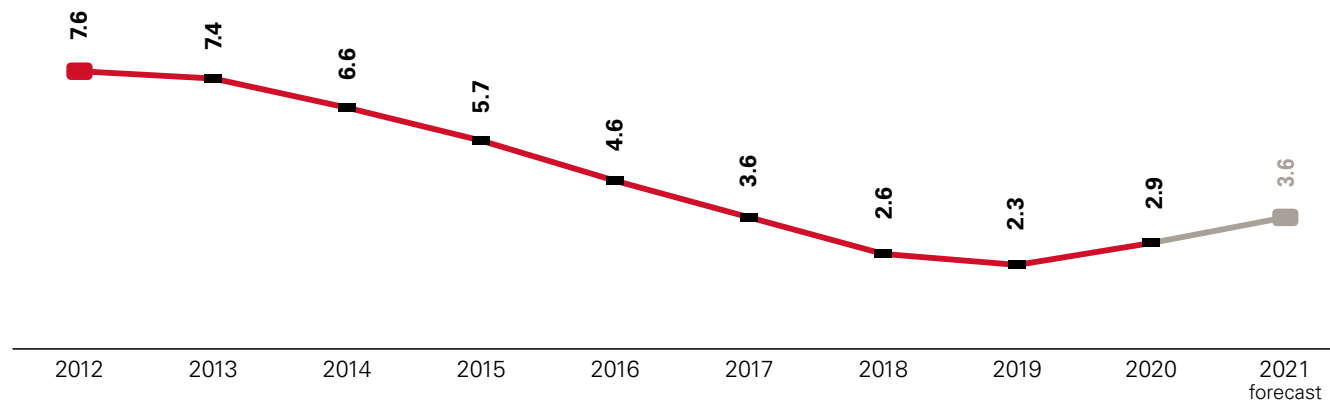
Most units that were vacated are located outside the city centre and had a size of several hundred square metres, however, individual units of up to 5,000 square metres were also vacated.

In addition, a few large units became available for sub-letting. One outstanding example is a large amount of space offered for sub-letting, owing to the fact that administrative functions were given up at the headquarters of the former Galeria Kaufhof GmbH in Altstadt Süd. A substantial share of the newly vacant space is accounted for by this building ensemble alone.

3.6 %

vacancy rate
forecast Q4 2021

Vacancy rate 2012 – 2021 | in %



Source: Greif & Contzen Research, Cologne July 2021

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Focus topic

Working from home and office environments: Where are we headed?

The outbreak of the COVID-19 pandemic and the resulting increase of arrangements enabling employees to work from home, gave rise to general debate about what was the best place for office workers to work. Positive experiences and the employees' preference to work from home were used as a basis for questioning the role of offices as sole or main work-places. It was suggested that demand for office space would decrease significantly.

In our Office Space Market Report published in October 2020, we presented three strategies pursued by office users to address this challenging issue. These can be summarised as follows:

'Reducing space' (reducing the rent burden)

'Optimising' (ideal coordination of places of work and processes)

'Holding on' (the existing office-bound working structure is largely preserved)

Business life has now begun to gradually return to normal, and this gives rise to a number of questions that we are going to look into in this chapter:

What will be the future role of working from home?

What are the latest office layout trends?

How is demand going to change in Cologne's office space market?

Offices will remain the central workplace and exist alongside WFH arrangements

A number of studies have meanwhile shown that the majority of office workers have recognised the limitations of working from



Kupferloft in Cologne-Mülheim: a layout that fosters communication and interaction

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home (WFH), and appreciate the social interaction and communication in the office workplace. Many prefer a quota system where they regularly alternate between working at the office and from home, for example at a ratio of 3 to 2.

Large corporations and authorities in particular tend to pursue strategies that allow for office space to be reduced through permanent WFH arrangements. However, they are still not going to give up their office premises entirely.

Modern office layouts take alternating working situations into account and feature additional offerings

The existing trend to promote interaction and communication among staff members through office layout concepts and the increasing digitisation of work processes were reinforced by the COVID-19 crisis. Common areas, meeting places, places of retreat and conference rooms are gaining importance, in particular when employees are working in part from home and do not have a fixed workstation at the office. There is a wide range of layout options that can provide for a pleasant and individually selectable working environment. In addition, apps are used increasingly to book workstations or rooms, for example, or to control building access. More and more companies are making

their office premises more attractive, to boost their staff members' satisfaction levels and their loyalty. Another option is to integrate further facilities in the building, such as restaurants, gyms, childcare facilities or shops. Property developers are increasingly adding services, too, such as parcel collection or mobility offerings.

Companies are reducing their space, but the effect is limited

Some companies in Cologne are increasing WFH arrangements to downsize their offices, and this has already given rise to units becoming available for sub-letting.

However, this strategy does not work for all companies and the resulting loss of fixed workstations is not accepted by all workforces. Additional space may also be needed to allow for some of the elements of a modern office layout described above. The expected economic recovery is likely to increase the number of office workers on site, and therefore also the amount of office space needed. On the whole, it can be said that there are a number of factors that have an attenuating effect on the decrease of demand due to employees working from home.

Modern office elements that are becoming increasingly popular

- A choice of different room types for communication, retreat, phone calls, meetings, quiet work and breaks
- Comfortable furniture, accessories that promote a relaxed atmosphere
- Apps for booking workstations, rooms or services
- Higher building technology demands, e.g. regarding ventilation and occupational safety

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Stable rental levels

In line with decreasing COVID-19 infection figures and the progress of the vaccination campaign, economic recovery has set in once again in the second quarter of 2021. This trend had been interrupted at the end of 2020. However, various industries are still facing problems, such as scarcity of materials or higher prices.

The economic research institutes forecast economic growth of between 3.0 and 3.9 percent for 2021. The situation in the employment market is expected to improve.

The IFO business climate index increased considerably over the past few months. The ZEW economic expectations indicator has increased significantly since the start of the year, and suggests that a dynamic growth phase lies ahead. In its economic survey conducted in spring, the Cologne Chamber of Industry and Commerce found that the mood among local businesses had improved once again. The climate indicator has moved back into positive territory, even if it is still below the long-term average.

From an economic point of view, there are indicators suggesting that demand for office space in Cologne is more likely to increase in the second half of the year, than to decrease. A total of around 290,000 square metres could be taken up over the course of the year, matching the pre-crisis level. It is expected that further rental contracts for large units will be concluded.

Another slight increase of vacancies is also likely to occur, nevertheless. However, both prime and average rents are expected to remain stable. Many office users now tend to expect units that meet higher standards. At the same time,

a considerable increase of construction costs gives rise to higher prices for new and converted buildings.

290,000 m²
take-up of space
forecast 2021



Repositioning of inner-city office space: the 'Rheinzeit' office campus.

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Glossary

Take-up of space

The take-up of space is the amount of office space 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 occupation, the date of the purchasing contract or the date the actual construction measure was begun is considered to attribute the measure to a certain time period. Lettings to final users in office centres or coworking facilities are not taken into account.

Vacant space

Completed office space that is currently not let or occupied and available for rent or purchase by an owner-occupier in the near term, is considered vacant space. The vacancy rate is the percentage of vacant space of the total of existing office space.

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 an office 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.

- **Benchmark rent**

This figure is specified for a geographically defined office submarket. It is based on the range of the standard deviation below and above the (unweighted) average rent.

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1976
the year Theodor J. Greif started his one-man business as an estate agent



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German Property Partners

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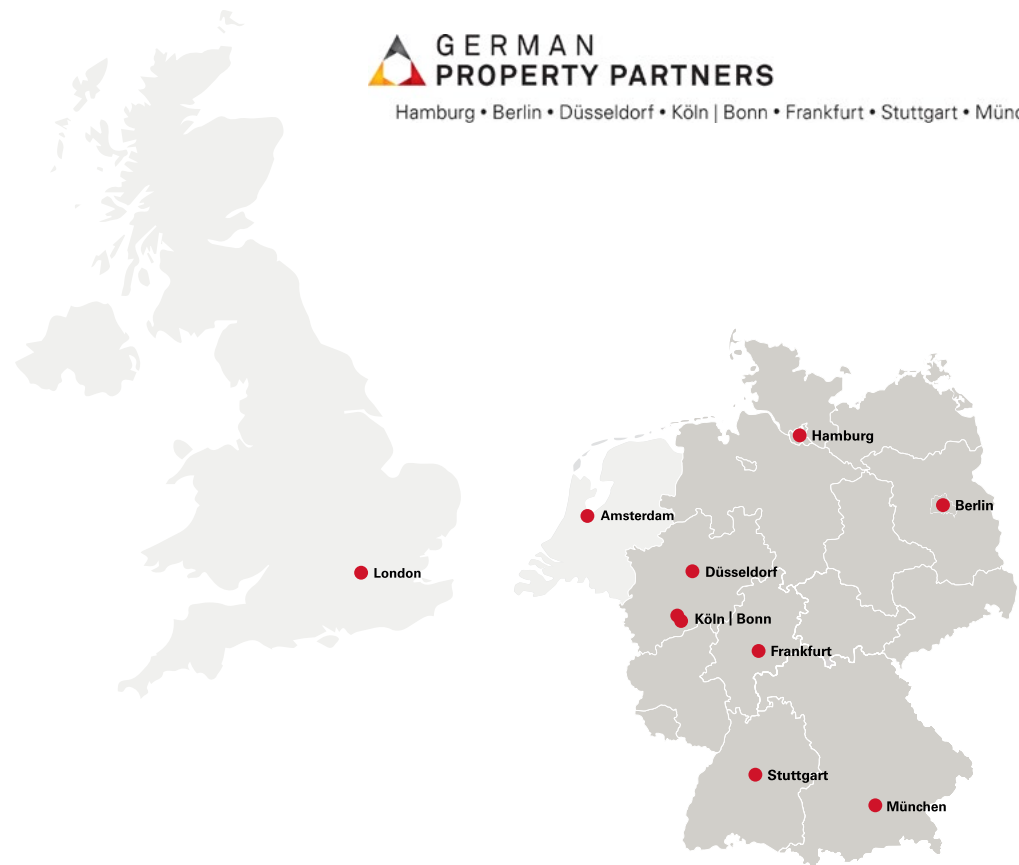
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