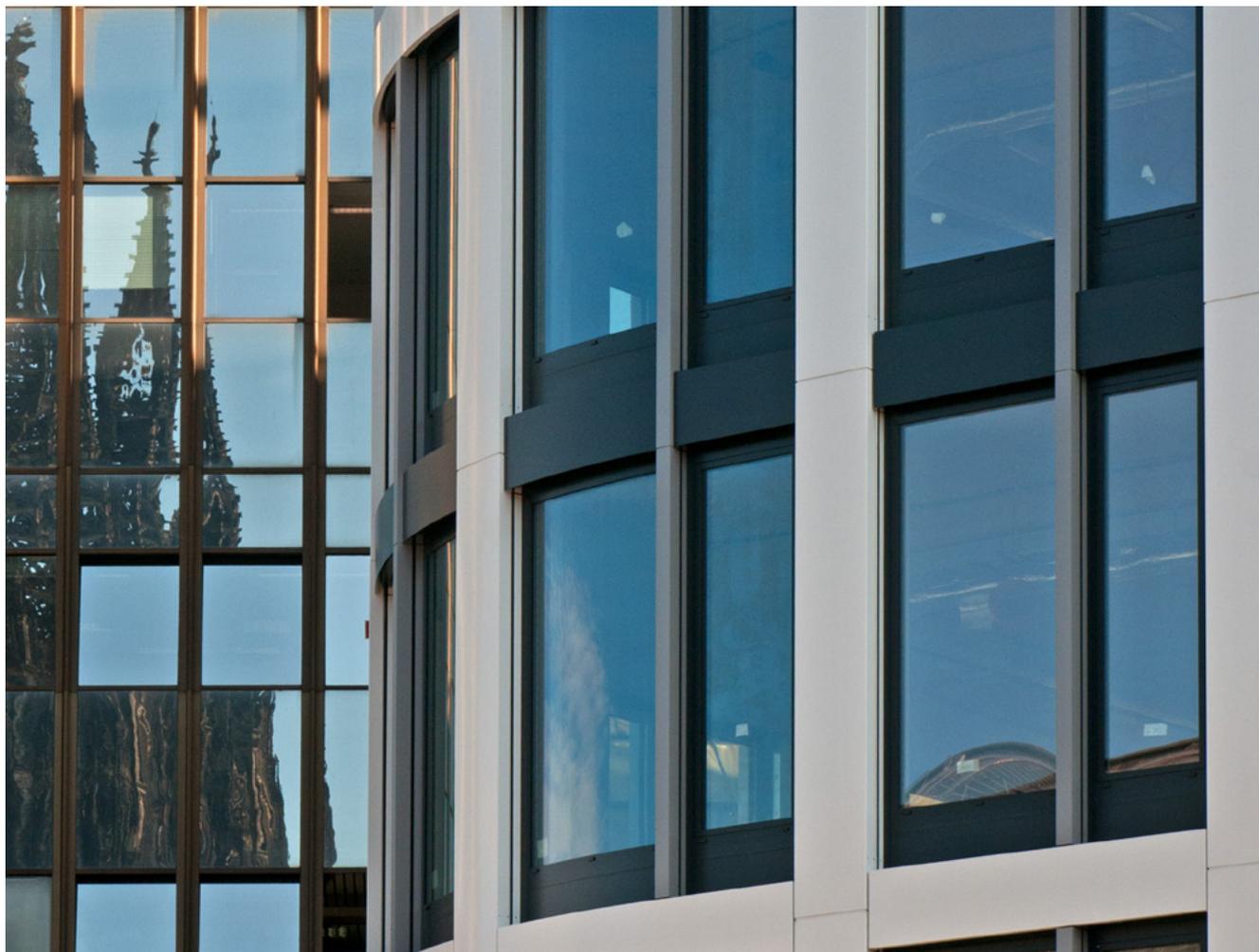


Office Space Market Cologne

09|2023



GREIF & CONTZEN

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Dear readers,

By now there is growing evidence that take-up of office space in Cologne has caved in in line with the economic downturn. Only around 128,000 square metres of space were taken up in the first three quarters of the year (2022: 270,000 square metres). Prospective tenants looking for space have started to be more active again in recent weeks, but the total of space let by the end of the year is expected to be far below the long-term average, nevertheless.

In addition, property developers across Germany are also affected by high construction costs and interest rates, as well as reduced interest of final investors. The first few well-known property developers have declared insolvency in recent weeks. It is often the case now that business models that rely on large amounts of borrowed capital, rising real estate prices and quick resale are no longer viable.

However, not all property developers have been using this approach. Those who have sustainable structures can realise property developments even in the current market phase, for example if they already own the land or if a high proportion of equity is available.

Some plans will have to be strategically realigned, such as concerning their timeline and sale. The situation in the property development market will remain unsteady for the time being. However, we still expect that some projects will continue to be realised successfully in Cologne.

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



»Many property developers in Cologne are positioned solidly, despite the current challenges.«

Andreas Reul

Head of Office Properties

Greif & Contzen Immobilienmakler GmbH

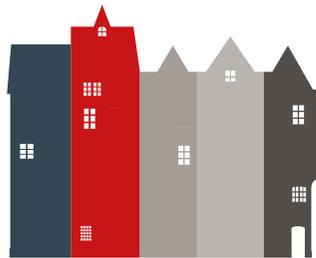
Office Space Market Cologne Q1-3 2023



128,000 m²

TAKE-UP OF SPACE

The total of office space taken up by the end of the third quarter was barely half as much as the amount taken up in the same period last year (270,000 square meters). While considerable decrease in demand for space could be observed, a general revival has been noticeable more recently.



276,000 m²

VACANT SPACE

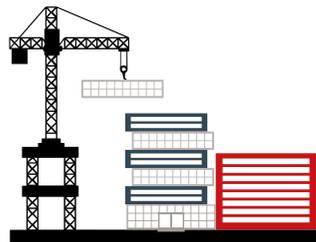
Vacant space increased slightly in the third quarter. The vacancy rate stands at about 3.4 percent, or at around 4.0 percent if space offered for sub-letting is included.



EUR 32.00/m² EUR 35.00/m²

PRIME RENT MAXIMUM RENT

The prime rent was boosted by individual contracts concluded for premium-quality units, especially in the first quarter. The current weighted average rent is EUR 19.30/m².



COMPLETIONS

90,000 square metres of office space are scheduled for completion in 2023. This is in line with the ten-year average. A similar result is expected for 2024.



OUTLOOK

Over the next few months, pressure to make location decisions will intensify for some office space users. Take-up of space is therefore likely to be slightly higher in the fourth quarter than was the case in the third quarter.

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Office space market Cologne – key figures, development and forecast

	2019	2020	2021	Development 2021/2022	2022	Trend	Forecast 2023
Take-up (000's m²)	290	230	315	→	315	↓	190
Existing space (million m²)	7.9	8.0	8.05	↗	8.1	↗	8.2
Completions (000's m²)	160	70	95	↗	110	↘	90
Vacant space (000's m²)	185	230	255	↘	230	↑	290
Vacancy rate in %	2.3	2.9	3.2	↘	2.8	↑	3.5
Maximum rent (in €/m²)	29.00	28.50	30.00	↑	36.00	→	36.00
Prime rent (according to gif) in €/m²	26.00	26.00	27.00	↗	28.50	↑	34.00
Average rent (weighted according to unit size) in €/m²	16.70	16.50	17.00	↗	18.50	↗	19.50
Average rent (mean value) in €/m²	14.00	14.00	15.30	↑	16.70	→	16.70
Employees* (000's) (as of June)	583	580	591	↗	607	→	607
Unemployment rate in % (as of June)	7.9	9.6	9.5	↓	8.4	↗	8.6

* employees contributing to social insurance

Source: Greif & Contzen Research, Cologne, September 2023

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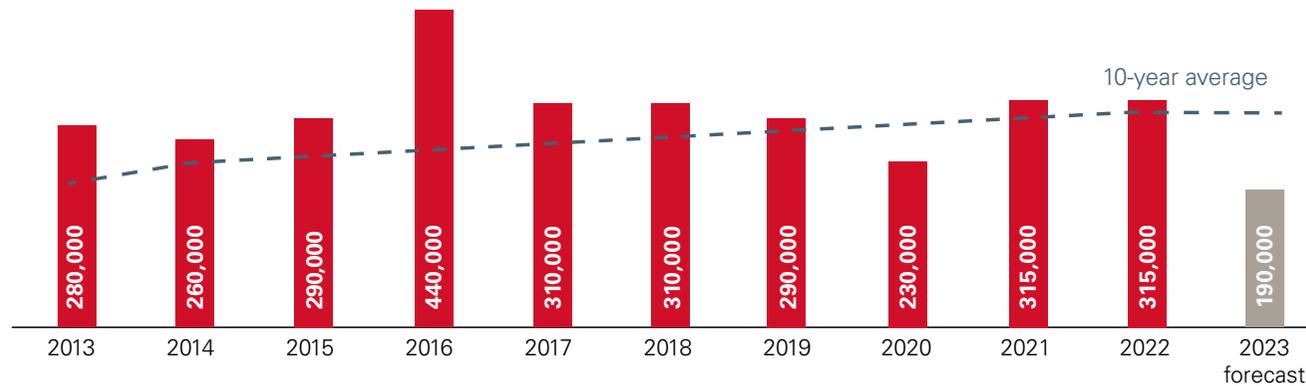
Take-up of space drops to a 20-year low

Only around 128,000 square metres of office space were taken up in the year to date, which is just over half of the amount taken up in the same period last year. On the whole, there are indications that take-up of space this year will be the lowest since 2004. The importance of public facilities

as a demander group decreased compared to recent years, when they took up a large number of office units. Many private sector office users are reluctant against the backdrop of the current market situation, and have been postponing decisions concerning restructuring.

128,000 m²
take-up of space Q1 – Q3 2023

Take-up of office space: development 2013 – 2022, 10-year-average and forecast for 2023 | in m²



Top 5 units taken up in 2023

User	Status	Office space in m ²
Church Pension Fund of the German Association of Dioceses (KZVK, Innenstadt Nord)	development project	approx. 9,150
Boston Consulting Group (Innenstadt Nord)	development project	approx. 7,250
unknown (Deutz)	development project	approx. 4,300
Educational institution in the healthcare sector (Braunsfeld)	existing space	approx. 3,900
Law firm (Innenstadt Nord)	development project	approx. 3,600

Source: Greif & Contzen Research, Cologne, September 2023

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Higher rents for particularly good locations and units

Office units in good locations and with a modern fit-out standard must be let for high prices to account for the high construction costs.

- Tenants are still willing to pay high prices for top-quality premises. Nevertheless, many users are now more critical with regard to rents than was the case in previous years, and there is an increasing tendency to keep an eye on ancillary costs. Sustainability aspects have also been gaining importance.
- The prime rent increased to around EUR 32.00 per square metre.

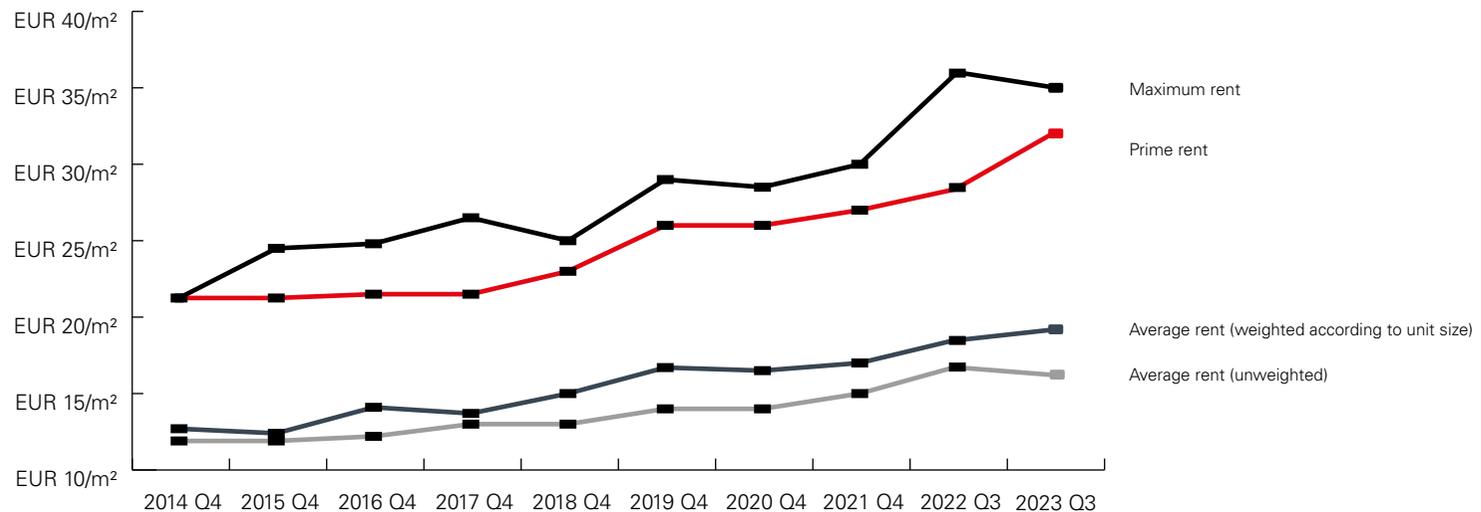
Poor take-up paired with a small number of high-price rental transactions have had an impact on the average level of rents.

- The average rent weighted according to unit size increased from about EUR 18.50 to EUR 19.30 per square metre over the course of the year.
- The unweighted average rent decreased from around EUR 16.70 to EUR 16.30 per square metre.
- It is expected that a number of rental contracts will be concluded in the fourth quarter that will give rise to an increase of rental levels.

EUR 32/m²
prime rent Q1 – Q3 2023

EUR 35/m²
maximum rent Q1- Q3 2023

Development of office space rents: 2014 to Q3 2023 | in €/m² per month



Source: Greif & Contzen Research, Cologne, September 2023

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Property developers are affected by a turbulent market

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Property developers are affected by high interest rates and construction costs, as well as a decline in demand from office users and final investors.

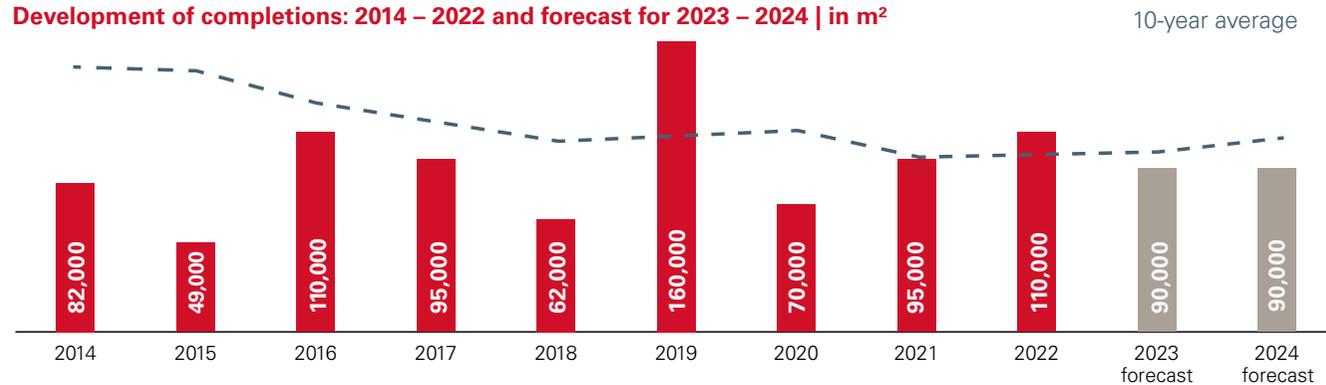
- The first few property developers declared insolvency in the third quarter, and further developers may have to do so, too.
- Building contractors can also run into serious difficulties.
- Some projects need to be realigned, for example with regard to their strategic focus.

Many developers in Cologne are positioned solidly and able to continue their work.

- Development projects in good locations that can be realised with a large proportion of equity, where a substantial share of the space is pre-let, and the land is already paid for in some cases, continue to be promising endeavours.
- Many property developers are part of solid company groups or investment partnerships.
- Development projects continue to be planned, marketed and built.

180,000 m²
new office space scheduled for completion 2023 – 2024

Development of completions: 2014 – 2022 and forecast for 2023 – 2024 | in m²



Top 5 projects under construction

Property/submarket	Rental space in m ²	Completion
ROSSIO (Deutz)	around 25,000	2025
CENTRAAL (Deutz)	around 19,700	2024
OVUM (Braunsfeld)	around 18,400	2023
Mattes & Düxx, 1st part (Deutz)	around 12,500	2024
Reiterstaffel Offices	around 11,800	2025

Source: Greif & Contzen Research, Cologne, September 2023

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Vacant space has increased noticeably but is still on a moderate level

Over the course of the year, vacant office space increased by about 46,000 square metres to now around 276,000 square metres.

- Units were vacated across a number of submarkets.
- In the third quarter, there was only a slight increase of around 6,000 square metres.
- The vacancy rate stands at about 3.4 percent.

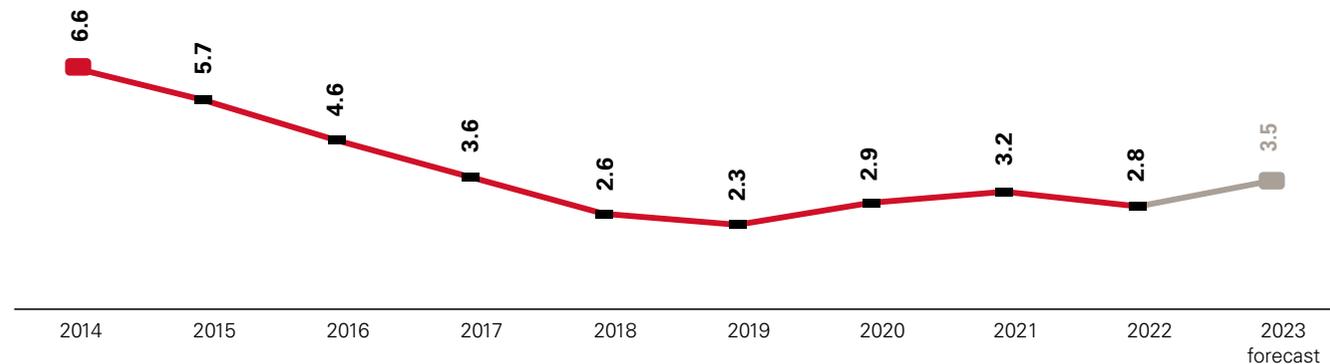
- An additional around 47,000 square metres are offered for sub-letting. If this space is included, the vacancy rate is about 4.0 percent.

Vacancies could decrease further to about 290,000 square metres by the end of the year.

- Companies looking for space have a little more choice again, when it comes to finding suitable units even at short notice.
- Fewer units are becoming vacant in the city centre than is the case in the submarkets outside the centre.

3.5%
vacancy rate
forecast Q4 2023

Vacancy rate: development 2014 – 2022 and forecast 2023 | in %



Source: Greif & Contzen Research, September 2023

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Many companies are still reluctant when it comes to location decisions

Overall economic situation

Over the course of this year, economic development has been alternating between recession and stagnation. The economy is affected by inflation, the high interest rate level, a decrease in demand across various industries and also by reduced private consumption.

- Economists expect a decline of economic output of between 0.4 and 0.6 percent in 2023.
- A gradual recovery on a moderate level is predicted in the gross domestic product forecasts for 2024 (+1.0 to +1.4 percent), provided that inflation decreases and private consumption picks up again.
- The ifo business climate index has decreased five times in a row since May.

Office space market cologne

The sluggish economy will continue to affect the development of the office space market over the next few months.

- Based on the assumption that the current noticeable revival of demand will give rise to a slight increase in take-up in the fourth quarter, around 190,000 square meters of office space could be taken up by the end of the year. This would be the lowest result since 2004.
- Demand is likely to develop on a moderate level in consideration of the economic situation.
- Vacant space will continue to increase in the fourth quarter.

- Along with the expected increase in contract conclusions in the fourth quarter and the focus on units in mint quality, average rents are also likely to increase slightly.
- Many property developers are positioned solidly for pursuing their projects in Cologne.

190,000 m²
take-up of space
Forecast for 2023



The Rheinauhafen neighbourhood continues to be a top office location without any vacancies.

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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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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



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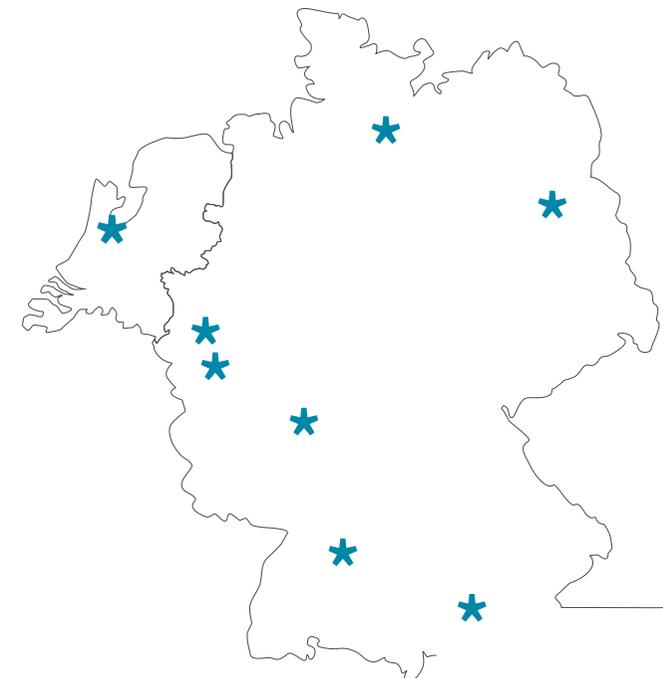
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