

Investment Market Cologne

09|2021
Q1-3



GREIF & CONTZEN

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Dear readers,

In line with rising vaccination figures, large parts of the business world, including the majority of players involved in the real estate investment market, have moved beyond cautious monitoring. The COVID-19 pandemic is still reflected in the segment breakdown:

there has been plenty of investment activity in the area of residential properties, while hardly any hotels were traded and only a few larger retail buildings changed hands. The number of sales initiated in the office space sector has increased considerably since the summer, and these will once more provide for a high transaction volume in the fourth quarter. These dynamics are in part the result of the realisation that Cologne's office space market, with its strong demand from public users, stable rents and still low level of vacancies, has developed more favourably during the pandemic, than was the case in some of the other top-7 cities.

This market report will give you an overview of the developments in the most important asset classes of Cologne's real estate investment market. Those who are familiar with our market reports will notice that we are presenting our information in a slightly more compact format in this issue. We chose this new approach to allow for a quicker read.

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



»Office space investment activities in Cologne are benefiting from the more stable development of the market compared to other top-7 cities.«

Thorsten Neugebauer

Head of Investment

Greif & Contzen Immobilienmakler GmbH

Investment Market Cologne Q1–3 2021



EUR 1.2 billion

**COMMERCIAL PROPERTY
TRANSACTION VOLUME**

The result achieved in the same period last year was matched. Some investors acted with restraint up until May.



3.00%

PRIME YIELD OFFICE BUILDINGS

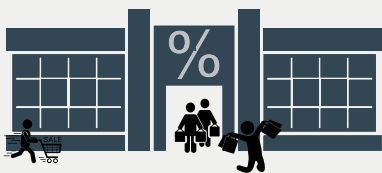
The net prime yield for office properties remained stable throughout the pandemic, and is currently showing a downward trend.



3.50%

PRIME YIELD LOGISTICS FACILITIES

The net prime yield for logistics properties has decreased slightly once again.



3.30%

PRIME YIELD RETAIL BUILDINGS

The prime yield for retail buildings increased, inner city retailing remains under pressure.



EUR 2.5 billion

OUTLOOK

Market dynamics have increased. A number of large office properties will be sold in the fourth quarter.

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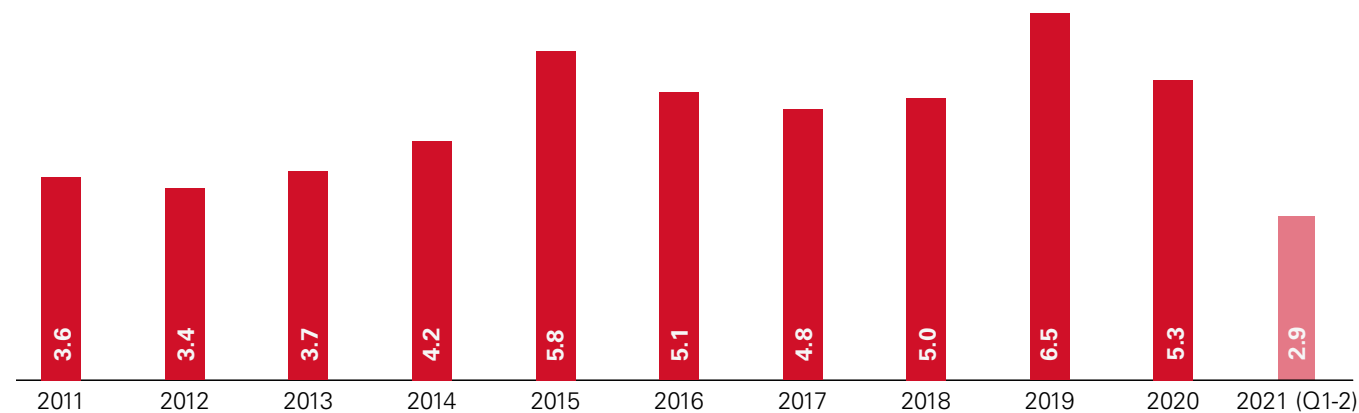
Investment market summary

The committee of experts for real estate value reports that a total transaction volume of around 2.9 billion euros was realised in the city of Cologne in the first half of 2021. The investment volume realised in the first half of the past five years ranged between around 2.2 and 2.4 billion euros. This significant increase observed in the first half of 2021 was

accounted for, in particular, by the residential segment. A yearly average of 5.3 billion euros was turned over across all real estate segments of Cologne's property market in the past five years. This value was nearly reached in 2020, despite some sales being delayed due to the COVID-19 pandemic.

approx. EUR 2.9 billion
transaction volume Q1 and 2
2021 (all real estate segments)

Transaction volume development 2011 – 2020 | in billion €



Source: Committee of experts for real estate value in the city of Cologne, 2021

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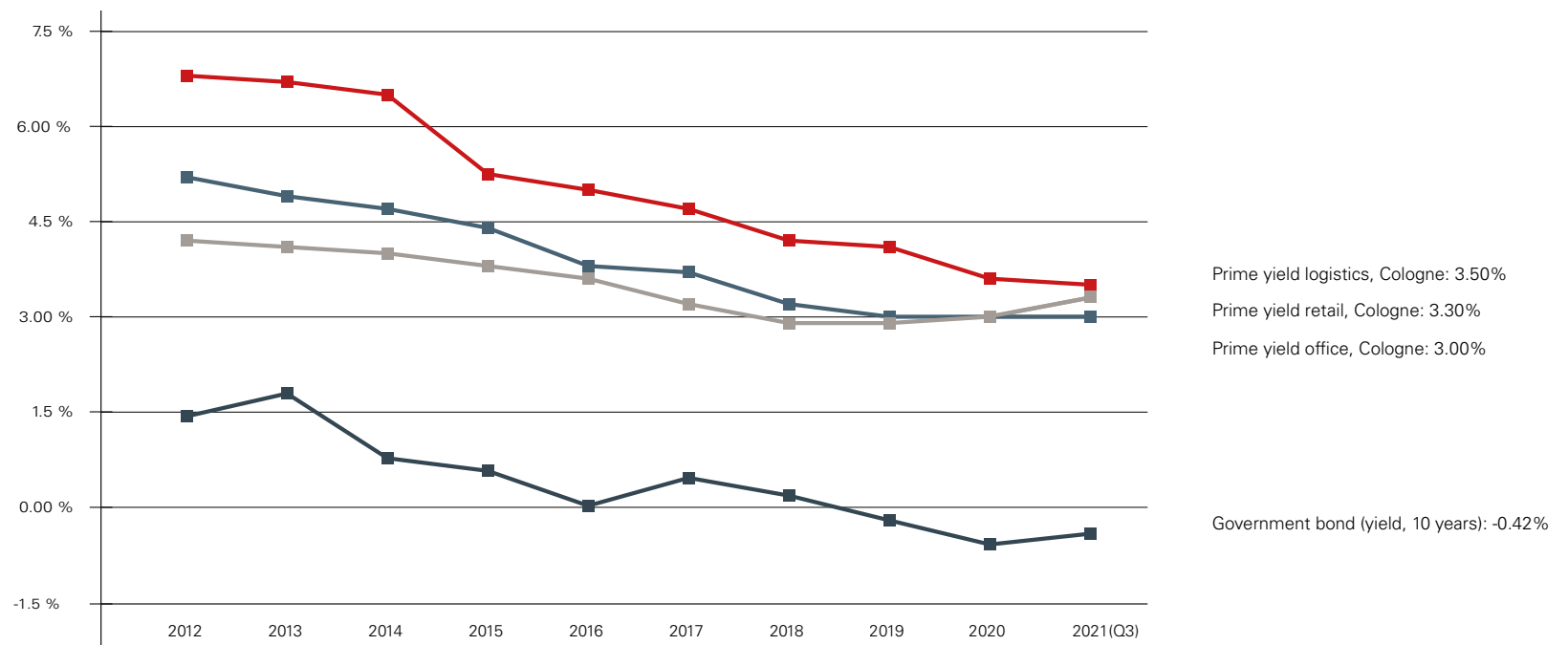
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Yields in the fourth quarter of 2012 – 2021 (Q3) | in %



Source: Greif & Contzen Research, Cologne, September 2021

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Commercial properties: more transactions with high purchasing prices

Large properties were sold in most commercial real estate segments in the year to date, in some cases for prices around or even above 100 million euros. At this point last year, the majority of transactions had been limited to the low and mid-price categories. Just like last year, however,

investors are still cautious when it comes to hotels. Among the biggest transactions was the sale of two refurbished office buildings in the so-called Friesenquartier that were used by the Gerling corporation in the past.

approx. EUR 1.2 billion
investment transaction
volume realised with commercial
properties in Q1 to Q3 2021

Selection of major transactions in 2021

| Property (location) | Type | Purchasing price in million EUR* |
|--|--------------------------|----------------------------------|
| Im Klapperhof 3-5 and 7-23 (Altstadt-Nord) | office space (portfolio) | around 100 |
| Im MediaPark 6 (Neustadt-Nord) | office space | > 70 |
| Schildergasse / Hohe Strasse (Altstadt-Nord) | retail building | > 70 |
| Mercedes-Allee 1 (Müngersdorf) | mixed use | > 60 |
| Oppenheimstrasse 11, Elsa-Brändström-Strasse 10-12 (Neustadt-Nord) | office ensemble | around 60 |
| Niederkasseler Strasse 20 (Lind) | logistics | unknown |
| Mathias-Brüggen-Strasse 82 (Ossendorf) | logistics | unknown |
| Iddelfelder Strasse / Kochwiesenstrasse (Holweide) | development site | unknown |
| Oskar-Jäger-Strasse 192 / Vogelsanger Strasse (Ehrenfeld) | development site | unknown |

*estimated

Source: Greif & Contzen Research, Cologne, September 2021

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Office properties

Cologne's office space market proved crisis-resistant compared to other top-7 markets

With a total transaction volume of around 600 million euros, office buildings accounted for about 50 percent of commercial properties traded in the first nine months of the year. Compared to the same period last year, office property investments decreased by around 10 percent. A number of portfolios and ensembles were sold, as well as individual properties from various size categories.

- Proximus sold the refurbishment project The Corner Cologne and The Spikes to a specialist fund by Hines for an estimated 100 million euros.
- The open-end fund Hausinvest paid around 60 million euros for an 11,000 square metre ensemble in the Neustadt-Nord neighbourhood that was formerly used by the bank Sal. Oppenheim.
- Barings bought an office building in MediaPark with around 19,000 square metres of rental space from MEAG.
- Office space rents remain stable, as the vacancy rate is still low at currently 3.40 percent, and room for rent reductions is limited owing to rising construction costs.
- Demand for office space is sustained by public users and a wide range of medium-sized companies from various industries.
- The net prime yield is currently 3.00 percent with a tendency to decrease further.

For further information and analyses, please refer to our report "Office Space Market 10|2021" which will be issued shortly.
<https://www.greif-contzen.de/en/press/market-reports>

3.00%

prime yield on office buildings
Q3 2021



Part of the sold office ensemble on Elsa-Brandström-Strasse.

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Retail properties

The transaction volume increased considerably in 2021

Retail buildings for a total of around 180 million euros were sold in 2021 to date. The transaction volume has therefore been about three times as high as was the case in the same period last year that was characterised by the pandemic. The sale of individual large retail buildings in the city centre and some large-scale retail markets contributed to this result.

- A big retail building in a central shopping location was sold for an estimated price of over 70 million euros.
- A private investor bought a residential and commercial building with around 1,000 square metres of rental space on Ehrenstrasse 25-27.
- The highest rents are only obtained with perfectly laid out shops in mint condition. Rents agreed upon for units that are newly let but no longer meet contemporary standards can be significantly lower.
- A number of inner-city locations are currently being upgraded with property developments. These areas include the Kölner Ringe ring road, Schildergasse and the area to the south of the cathedral.
- The net prime yield for retail buildings rose to 3.30 percent over the course of the COVID-19 pandemic.

3.30%

prime yield on retail buildings
Q3 2021



The top shopping streets are located between Neumarkt and the cathedral.

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Industrial and logistics properties

Low transaction volume despite strong investor demand

A total transaction volume of around 70 million euros has been realised with industrial and logistics properties in Cologne in the year to date. Properties for a total of around EUR 140 million changed hands in the greater Cologne|Bonn logistics region. Investment transactions have therefore decreased by over 40 percent compared to the same period last year.

- The Catella Logistik Deutschland Plus fund bought a 50,000 square metre plot with around 16,500 square metres of warehouse space in Cologne-Lind.
- The property developer Osmab bought a logistics centre in Cologne-Ossendorf, featuring around 13,000 square metres of warehouse space and further expansion potential.
- A business park with an estimated 10,000 square metres of warehouse space in Troisdorf was taken over by Arrow Capital Partners on behalf of Strategic Industrial Real.
- Prices for commercial building land increased across the entire logistics region and are currently ranging up to EUR 350 per square metre in Cologne.
- The net prime yield is 3.50 percent with a tendency to decrease further.

Please refer to our report “Industrial Property Market Cologne|Bonn 9|2021” for further information and analyses.
<https://www.greif-contzen.de/en/press/market-reports>

3.50%

prime yield on logistics properties Q3 2021



Large logistics facilities are in high demand among users and investors.

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Hotels

Signs of recovery in the hotel market

The hotel market continues to be strongly affected by the COVID-19 pandemic. The transaction volume achieved in the year to date is low. Occupancy rates of hotels have at least been gradually increasing in recent months, and planning for new construction projects has been resumed.

- Around 530,000 overnight stays were recorded in Cologne in the first half of 2021 (entire year 2020: approx. 2.6 million, entire year 2019: approx. 6.5 million).
- Occupancy rates have been improving steadily since the start of the year, and were up to almost 30 percent in June.
- Trade fairs are no longer taking place purely digitally but as hybrid formats.
- The average room rate is around 80 euros.
- A number of new hotels were opened in 2021, such as the Moxy Hotel at the airport, the Ruby Hotel on Hohenzollernring and the Motel One and Adina Apartment Hotel near the trade fair grounds.
- Plans have been announced to build new hotels in the city centre, Cologne-Mülheim, Cologne-Braunsfeld and other locations.

approx. 18% occupancy rate
average value Q1-2 2021



The hotel ensemble Southern Cross is part of the large-scale project MesseCity.

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Apartment buildings

Prices are likely to increase further

Apartment buildings for around one billion euros were sold in the first nine months of the year. This means that the transaction volume more than doubled compared to the same period last year. In addition to private investors, properties were bought by institutional investors, who were also able to pick up a few portfolios.

- GWH Immobilien bought a large national housing portfolio with more than 500 apartments in Cologne from Soka-Bau, a special asset of AEW.
- Rents are stable or rising as housing continues to be very scarce in Cologne.
- As a consequence of the COVID-19 pandemic, Cologne's population declined slightly in 2020, by around 4,000 people. Cologne is expected to continue growing in the future, nevertheless.
- The core range of purchasing price factors is between 22 and 30-fold the annual net rent. However, prices can be higher in the top segment.

more than 30-fold

purchasing price factors in the top segment in 2021



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The increase of prices has picked up speed

The demand surplus for condominiums remains unbroken. A transaction volume of around 960 million euros was recorded in the first half of the year. This is the highest half-year result in over five years. Since the start of the year, purchasing prices have increased by over five percent in new buildings and by over ten percent in existing buildings.

- The average purchasing price for second-hand condominiums is around EUR 4,100 per square metre.
- Some new condominiums were sold for prices of over 2 million euros in the top segment, i.e. for over EUR 10,000 per square metre.
- Most condominiums were sold in the city centre, as well as the districts of Rodenkirchen, Lindenthal and Ehrenfeld.
- The number of new units completed is far lower than the demand. Around 2,000 apartments were completed in 2020 (2019: around 2,200).
- A noticeable increase in availability is not to be expected in the near future.
- It can take more than 12 months for planning permission to be granted, even for private home owners planning expansion measures.

EUR 6,300 / m²

average purchasing price for newly built condominiums



Refurbished historic buildings are highly sought-after.

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Real estate remains a coveted asset class also beyond COVID-19

Macroeconomic environment

Softening the inflation target, the European Central Bank holds on to its expansive monetary policy and the low interest rates. The essential driving forces related to real estate investments remain intact.

- Economic research institutes expect GDP to grow by between 2.10 and 3.50 percent in 2021 (2022: 3.50 to 4.90 percent).
- The Ifo business climate index has increased considerably since the start of the year. However, it has recently been affected by delivery bottlenecks and rising inflation figures.
- The majority of economists expect the recent increase of inflation to be a short phase.

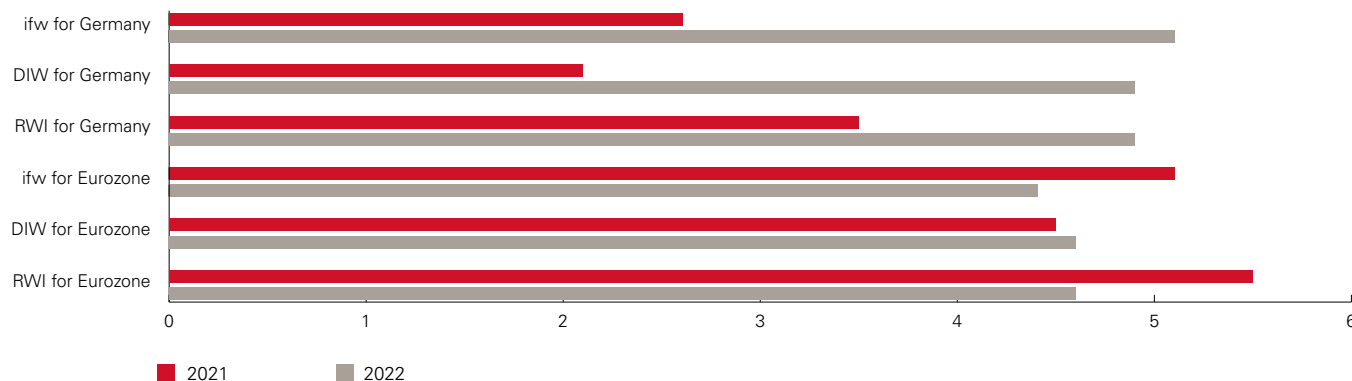
Investment market Cologne

It is expected that a number of large-scale transactions will be completed in Cologne before the end of the year. A total investment volume of around 2.5 billion euros could therefore be achieved.

- Sales processes for multiple large office properties are currently underway and likely to be notarised in the fourth quarter.
- Among the properties in question are new construction projects as well as high-quality existing buildings, which may give rise to new top yields in the office segment.
- The prime yield for logistics properties may decrease a little further, depending on availability.

approx. EUR 2.5 billion
forecast transaction volume
of commercial properties
in 2021

Economic forecasts for Germany and the Eurozone – GDP growth in percent in 2021 and 2022



ifw: Institute for the World Economy; DIW: German Institute for Economic Research; RWI: RWI – Leibniz Institute for Economic Research
Source: forecast, as of September 2021, data compiled by Greif & Contzen Research, Cologne September 2021

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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.

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Your partner for all real estate endeavours

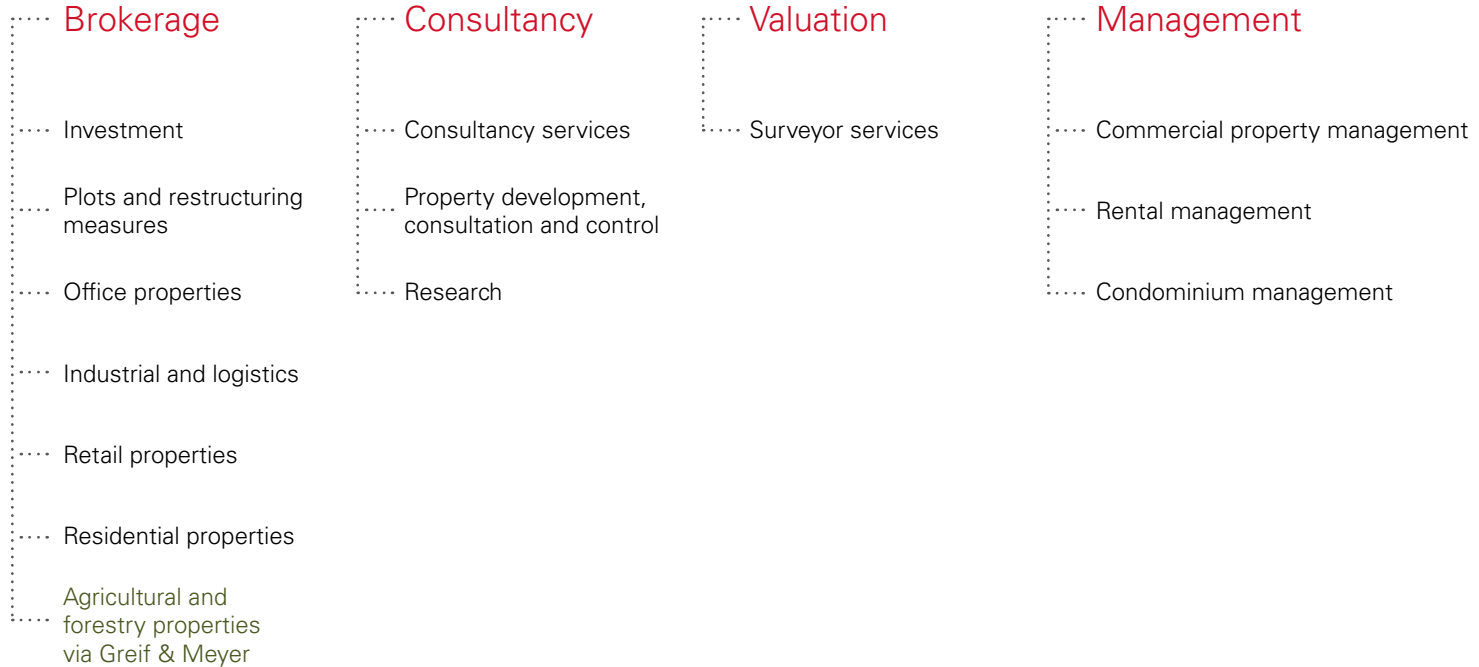
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Our expertise is characterised by strong regional links. After all, there are two crucial aspects in a market for durable goods such as real estate: profound knowledge of the development and particularities of the market, and excellent relations with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