BNP PARIBAS REAL ESTATE

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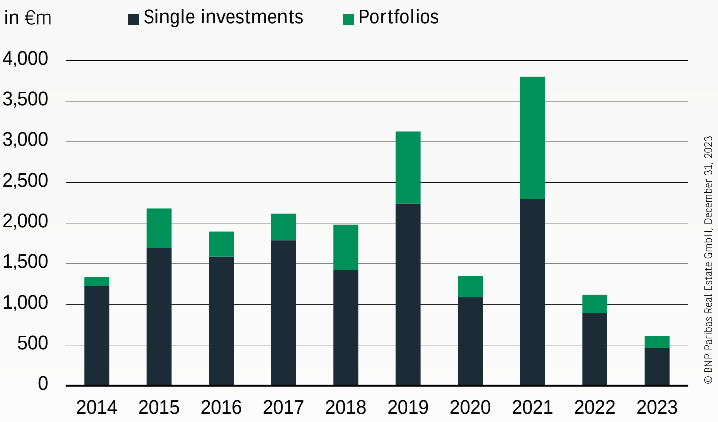
RESEARCH

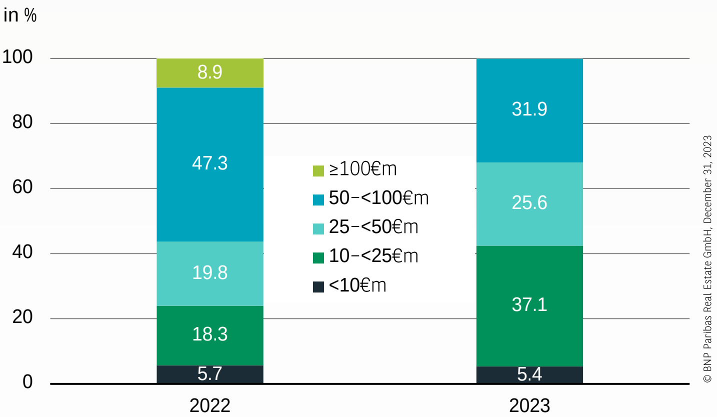
At a Glance Q4 2023

INVESTMENT MARKET COLOGNE

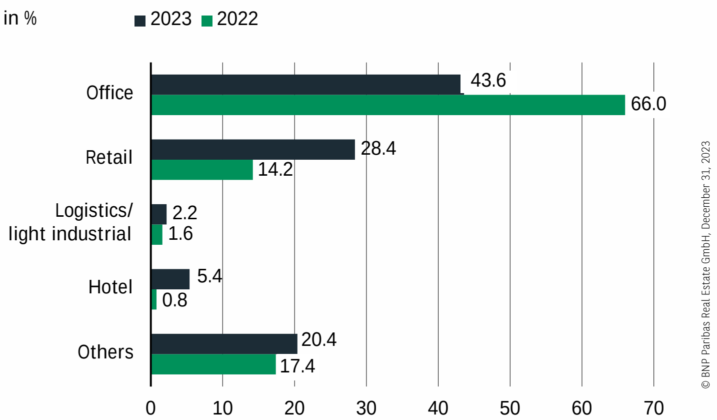
Investment volume



Investments by € category



Investments by type of property



NO YEAR-END RALLY IN COLOGNE

The relatively weak development of turnover in Cologne's investment market continued in the final quarter. As in the other major locations, the usual year-end rally was absent in the Cologne market, although there was a slight upturn in transactions in the last three months. With a transaction volume of €609 million, the previous year's result was missed by 46% and marked the weakest performance in the last ten years. The ten-year average was even undercut by a good two-thirds. The mix of high interest rates, a slowing economy and a decline in supply due to lower prices also had a negative impact. The price phase, which lasted throughout the year, led to almost no high-quality core supply and no major transactions. As a result, Cologne ranks last among Germany's prime locations. In relative terms, Cologne is in a comparatively good position with a decline of 'only' 46%. All other cities recorded higher losses in turnover.

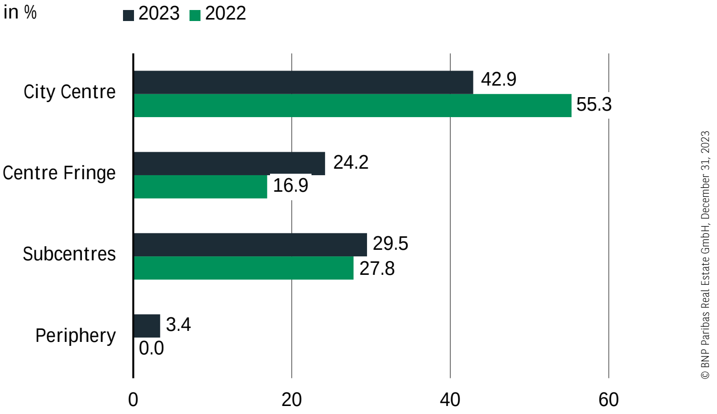
NO TRANSACTIONS IN THE THREE-DIGIT MILLION RANGE

The distribution of investments across the individual size categories emphasises that the moderate market development is primarily due to a lack of major transactions. For the first time in the last ten years, no transactions above the € 100 million mark were realised in the entire year. If the two classes above € 50 million are summarised, they currently account for just under a third of the volume. In contrast, their long-term average share is around 60%. In contrast, small and medium-sized transactions account for more than two thirds of the result and therefore significantly exceed the long-term average of 40%.

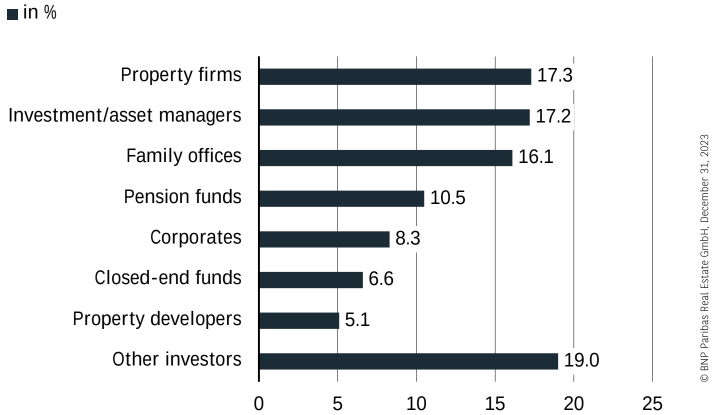
OFFICE INVESTMENTS BELOW AVERAGE

High-quality offices in particular have suffered from the interest rate trend, as shown by their share of just under 44% of transaction volume. They usually account for 56%. Investments in logistics properties (just over 2%) and hotels (just over 5%) were noticeably lower than the long-term average as well. A low supply and the fact that new price levels have not yet been fully established in some cases limited the investment volume. However, buyer interest in these asset classes has generally increased. By contrast, around 10 basis points more than average was invested in retail properties, which accounted for a good 28% of total turnover, which is the second-highest share in the last ten years.

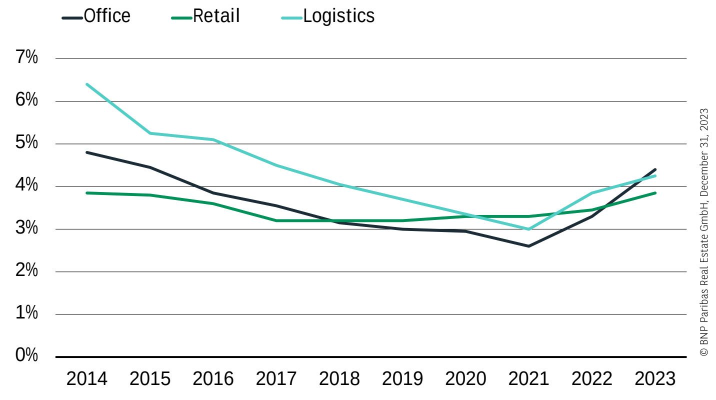
Investments by location



Investments by buyer group 2023



Net prime yields by type of property



CENTRAL LOCATIONS STRONG IN A DIFFICULT ENVIRONMENT

Compared to most other major investment locations, where the central locations in particular recorded significant declines in the volume due to the low core supply, the city centre locations in Cologne performed well. Just under 43% of transactions are accounted for the city centre, which is therefore only slightly underrepresented. The centre fringe locations are almost at their usual level, contributing a good 24% to the result. Responsible for this development is primarily the lively market activity observed for smaller investments. Subcentres achieved a share of 29%, which is roughly at their usual level.

BROAD DIVERSIFICATION OF BUYER GROUPS

Many different buyer groups were involved in the transaction volume, due to the relatively small-scale deal structure on the Cologne investment market. In total, four investor types achieved double-digit shares of turnover. Property firms and investment managers are tied at the top with a good 17% each. The podium is completed by family offices, which contributed around 16% to the result. Pension funds account for 10.5% of turnover and thus complete the leading quartet. Corporates (a good 8%), closed-end funds (just under 7%) and project developers (a good 5%) also invested to a notable extent.

SLIGHT RISE IN YIELDS IN Q4 AS WELL

As expected, net prime yields rose again slightly in the fourth quarter. This is due to the fact that the central banks' interest rate cycle was not yet fully completed. As a result, the net prime yield for offices rose by a further 20 basis points to 4.40%. At 5 basis points, the increase was lower for city centre commercial properties, which are quoted at 3.85%. Logistics yields rose by 15 basis points to 4.25%.

OUTLOOK

Although interest rates appear to have peaked and the major central banks are unlikely to raise them further, a significant recovery in the investment market is likely to take place only gradually over the course of the year. Although investors will have greater planning certainty in terms of financing and price levels, the slow economic recovery is likely to have a somewhat dampening effect, at least in the first half of the year. Rents are expected to continue to rise, which should have a positive impact and create opportunities for investors to realise capital appreciation potential. In summary, there is a realistic chance that the investment market will slowly recover in 2024 and that transaction volumes will increase, especially in the second half of the year.

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Further Information BNP Paribas Real Estate GmbH | Branch office Cologne | Phone +49 (0)221-93 46 33-0 | **www.realestate.bnpparibas.de**