GOOD FIRST HALF

The transaction volume in the Cologne investment market in the first six months of 2013 totalled around 360 m €. That represents an impressive year-on-year increase of 50 %. The result, which is also more or less on a par with the long-term average, was driven mainly by the performance in the first quarter. The second quarter exhibited considerably less dynamism, due primarily to an insufficient supply of large core products. The nevertheless very good aggregate transaction volume was fuelled among other things by several portfolio sales, included on a pro rata basis. The chief examples were the sale of the Cäcilium office building to Dundee International as part of the SEB package and the disposal of two Holiday Inn hotels within the framework of the QMH hotel portfolio. Overall, the market was definitely lively, indicated for instance by the considerably higher number of deals covered by this year’s survey, with 27 as against 21 in the prior-year period. The average volume per deal also rose slightly, to just over 13 m €.

MID-RANGE SIZE CLASSES STEP UP ACTIVITY

Generally speaking, investment in Cologne was spread fairly evenly across all the size categories. Compared with last year, though, there were slight shifts in the distribution, as the two mid-range size brackets gained in significance. The 25–50 m € class finished the first half around 9 percentage points higher, with a share of 34 %. Next came deals in the 10–25 m € category, with around 30 % of all investment. On the other hand, major deals upwards of 50 m € slipped in relative importance, obtaining only 19 % of the total. This not only represents a fall of 10 percentage points compared with last year but is also below the nationwide average.

OFFICES REMAIN STRONGEST ASSET CLASS

Office buildings have increased their lead over the other property types, accounting for a share of about 61 %. Well behind in second place came logistics complexes, which had already turned in a very good performance in the prior-year period and this year contributed nearly 19 % to turnover. Thanks to the two portfolio-context sales mentioned above, hotels generated a share of 7.5 %. Investment in retail properties remains at a notably low level, with only just over 5 %. By nationwide standards, this is an uncharacteristic result but it can be explained by the currently inadequate supply of such assets in Cologne.
Focus on City Centre Areas
Whereas in the first half of 2012 the subcentres had dominated investment activity, fuelled for instance by two major sales, this year their contribution in relative terms declined by all of 41 percentage points. Instead, the focus up to now has been on the central inner-city locations. With a share of 46 %, the city centre now heads the ranking again (+25 percentage points). This was due above all to numerous sales of office buildings. Real estate in the centre fringe zones also attracted considerably greater demand than a year ago, reflected by a share of more than 38 % (+18 percentage points).

Listed Real Estate Companies Take Slight Lead
The distribution of turnover according to investor categories shows that the Cologne market benefits from a broad basis of demand. In first place came listed real estate companies, with just over 20 % of all investment. Very close behind, though, with 19 %, were private investors, who show great interest in Cologne as a place to deploy their capital. Other double-digit contributions were made by equity/real estate funds and special-purpose funds; these generated almost equal shares, of 14 % and 13 % respectively. In fifth place came project developers (nearly 10 %), followed by insurances (around 9 %). At 43 %, the proportion of foreign investors was high by Cologne standards and also a notable result in a nationwide comparison (national average: 28.6 %).

Yields Stay Stable
In the first half of 2013, prime yields for high-quality top-location office buildings stayed stable at 5.20 %. So Cologne remains the most favourably priced city in the German Big Six. Premium retail/office properties in the best parts of the high-footfall shopping streets have net initial yields of 4.20 %, which puts Cologne among the country's more expensive cities and impressively highlights its attractiveness as a retail centre. The top yield for modern, new-grade and ideally located logistics complexes is 6.80 %. As elsewhere, logistics yields have remained stable for some considerable time now.

Outlook
Just how the investment market in Cologne develops during the remaining months of the year will depend significantly on the development of supply. It is clear that thanks to broadly based investor interest, demand in the small-unit and mid-range market segments is likely to maintain its buoyancy. Achieving a high transaction volume, though, calls for sales of large assets as well. While such sales can be anticipated, the scale of supply remains to be seen. At the moment, there seems to be a good chance that last year's turnover (565 m €) can be exceeded.