RESEARCH

HESITANT OPENING QUARTER

After getting off to an impressive start last year, the Cologne investment market began this present year somewhat more quietly with first-quarter turnover of 160 m € (-47 %). This is nearly 35 % below the long-term average. Although single deals actually generated a higher volume than in the same period in 2013 (plus around 12 %), there was a lack of the sizeable transactions and portfolio sales needed to produce a stronger performance. What must be taken into consideration, though, is that several large-scale deals were concluded just before the end of last year, so that the relevant supply has dried up for the time being. The focus of activity in the first three months of this year was therefore on transactions in the low double-digit million range. This is fairly typical of the Cologne market, which generally lives off small-unit deals while enjoying broadly based demand. The average volume per deal has fallen compared with last year, to just 12.3 m € up to now.

INVESTMENT CONFINED TO SMALL AND MID-RANGE DEALS

Investment in Cologne in the first quarter was confined entirely to the size classes below 50 m €. In fact, over half (almost 54 %) of the transaction volume was generated by deals in the low double-digit class of between 10 and 25 m €. In second place came the size category 25 to 50 m €, which accounted for close to 29 %. The smallest size segment, of up to 10 m €, achieved a share of just over 17 % of the total. The fact that there have so far been no major deals, thus leaving the over 50 m € category empty, is not that unusual, since market activity in this segment often comprises just a small number of transactions.

LOGISTICS COMPLEXES INCREASE SHARE

Just like last year, office buildings were the most favoured asset class in the first quarter, but their role was not nearly as dominant as in 2013. This year, they accounted around 40 % of turnover. In second place once again came logistics complexes with almost 34 % of all investment; they thus nearly doubled their prior-year share. Retail properties also attracted more capital than last year and they took third place (close to 8 %). In contrast, no hotel deals have been registered so far. The collective category of miscellaneous real estate accounted for considerably more investment than the same period last year, with all of this going into development sites.
CITY CENTRE MOST STRONGLY FAVOURED

Almost 56% of all deals were concluded in the downtown parts of Cologne, which thus headed the geographical ranking again, with a somewhat higher share than before. Subcentres, benefiting from transactions with logistics complexes, also achieved a bigger proportion, with close to 24% (+15 percentage points), thus ousting the Centre Fringe from second place. It finished one place lower down, achieving a far smaller share than last year with around 19% (minus 24 percentage points). In the periphery, market activity is extremely low.

BALANCED SPREAD BETWEEN INVESTOR GROUPINGS

In the first quarter of the year, only six different categories of investors were active in the Cologne market. However, turnover was distributed fairly broadly across these buyer groupings, which is a gratifying phenomenon because it points to a balanced market. Equity/real estate funds were responsible for the biggest share, with almost one-third, and thus moved up into first place after coming second last year. Second place this year was taken by project developers with close to 23%; previously they had not made such a strong appearance. Private investors generated one-fifth of the transaction volume to give them third place ahead of special-purpose funds (around 15%) and property firms (just under 2%).

YIELDS HAVE EASED

In Cologne, net prime yields have eased for all three of the property types covered. For fully let office buildings in top locations, they had already slipped to 4.85% (minus 35 basis points) at the end of 2013, and have firmed up at that level in the first quarter of this year. Yields for retail/office properties are now 4.15%, also following an end-of-year fall (-5 basis points). In the meantime, yields for logistics complexes have changed for the first time since 2010. They have fallen by 5 basis points, so that fully let complexes in favoured areas now command a yield of 6.75%.

OUTLOOK

Despite the slow overall start posted by the Cologne investment market, the slight increase in the volume generated just by single deals indicates the potential that this market offers. So, if turnover develops in a way similar to that observed in 2013, a good transaction volume can be expected for the year as a whole. This will probably not reach the one-billion-euro mark but should definitely be in the very high triple-digit million range.