GRATIFYING MID-TERM RESULT

The Cologne office market has reported a very good mid-term result, with take-up at 151,000 m². Following a robust start with 55,000 m² in the first quarter, the second quarter witnessed an increase in market activity culminating in the second-best result of the past six years. On closer examination, this result also compares favourably with last year's record (202,000 m², -25 %). This record was attributable not least of all to a major lease for 60,000 m² (Zurich Insurance). The remaining 152,000 m² are thus only marginally higher than the current result, which is based on a broad spectrum of leases spanning a diverse range of size categories. The leases taken out by BIMA (18,800 m²) and Strabag (17,300 m²) - both in Deutz - stand out in particular in this context. Deutz is the office market zone with the highest level of take-up (40,000 m²) and represents one of the most sought-after locations, along with the city centre (35,700 m²).

PUBLIC AUTHORITIES TOP, INDUSTRIAL COMPANIES STRONG

In customary fashion, public authorities lead the Cologne office market rankings. This sector has contributed the largest share to the total take-up of office space every year since 2013. Three of the five largest leases belong to this category, with BIMA (18,800 m² and 5,600 m²) and the Federal Office of Administration (5,500 m²). In contrast, industrial companies rarely feature prominently in the Cologne rankings. Thanks above all to Strabag's leases in Deutz, they currently take second place with a good 14 %, however, ahead of the media and advertising segments and other services (each with around 11 %). On the back of deals including two leases to Lufthansa totalling a good 11,000 m², the transport sector claimed a comparatively strong 9 % share to take fifth place.

AVAILABLE SPACE CONTINUALLY DECLINING

The situation on the supply side is growing increasingly tense in Cologne. The volume of vacant space has fallen once again and currently stands at 332,000 m² - its lowest level of the past 15 years. The vacancy rate now stands at only 4.3 %, which is the third lowest figure among Germany’s leading office locations after Berlin (2.7 %) and Munich (4.1 %). In particular, vacant modern space, which accounts for only 24 % of the total volume, is at a record low of 81,000 m². This is the first time it has dipped below 100,000 m² since 2002. Throughout the entire city area there is a lack of connected modern units above all in the medium price segment. The situation does not appear set to ease for the time being, with a further reduction in the vacant volume more likely.
INCREASED CONSTRUCTION FAILS TO EASE SITUATION

Construction activity has risen markedly in comparison to last year, by 36%. Around 185,000 m² are currently under construction, whereby the majority of this volume has been let prior to completion or is assigned to owner-occupiers. Consequently, only 57,000 m² (just under 31%) of this total are available to the market. In Deutz in particular, where the largest volume of new space is under construction (68,500 m²), only 2,000 m² remain available. All in all, the increased construction activity is unable to offset the continuing decline in vacant space, as a result of which the total volume of available space (vacant space plus available space under construction) also remains in decline. At a total of 394,000 m², it is down by some 100,000 m² on last year, dropping below the 400,000 m² threshold for the first time in 15 years.

YEAR-ON-YEAR INCREASE IN PRIME RENT

The prime rent, which continues to be attained for modern premises in very good city-centre locations, currently stands at 21.50 €/m². This represents a 2% rise in comparison to last year, as a result of the increasingly tense situation on the market. The top rents have also risen in many other office market zones, and substantially so in some instances. The top rent in Deutz stands at 18 €/m² (+3%), for example, and in Ossendorf/Nippes it is 12.70 €/m² (+15%).

OUTLOOK

A very good year-end result is to be expected for the Cologne office market. In view of current inquiries and the good underlying economic conditions, a total volume above the 300,000 m² threshold appears realistic. This is likely to entail a further decline in the volume of space available, resulting in a continuation of the tense market situation in the face of a sustained high level of demand. This should ultimately also be reflected in a further rise in rent levels.

Key indicators Cologne H1 2017

<table>
<thead>
<tr>
<th>Submarket</th>
<th>Top rent* (€/m²)</th>
<th>Take-up (m²)</th>
<th>Vacant space (m²)</th>
<th>Space under construction (m²)</th>
<th>Space on offer (m³)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 City Centre</td>
<td>21.50 - 35.70</td>
<td>35,700</td>
<td>108,900</td>
<td>49,700</td>
<td>9,500</td>
</tr>
<tr>
<td>1.2 Deutz</td>
<td>18.00 - 40,000</td>
<td>4,400</td>
<td>3,000</td>
<td>600</td>
<td>68,500</td>
</tr>
<tr>
<td>2 Centre Fringe</td>
<td>13.50 - 15.80</td>
<td>45,800</td>
<td>98,100</td>
<td>13,700</td>
<td>3,500</td>
</tr>
<tr>
<td>3 Subcentres</td>
<td>9.50 - 12.70</td>
<td>29,500</td>
<td>125,600</td>
<td>14,600</td>
<td>7,400</td>
</tr>
<tr>
<td>Total</td>
<td>21.50 - 35.70</td>
<td>35,700</td>
<td>108,900</td>
<td>49,700</td>
<td>9,500</td>
</tr>
</tbody>
</table>

* The top rent given applies to a market segment of 3-5% in each case.
** The relevant office market zone can be found on our website under “Research”.

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