

Office Space Market Cologne

07|2023



GREIF & CONTZEN

Introduction

Overview

Letting

Available space

Premium segment

Outlook

Further information

Dear readers,

The effects of the economic downturn have meanwhile become noticeable in Cologne's office space market. At around 75,000 square metres, take-up of space in the first half of 2023 fell short of the previous year's result, which had been unusually good due to three very large transactions.

Nevertheless, there are still companies with robust business development which are expanding and need more space as a result. These continue to strive to realise modern workplace concepts that support a more flexible way of working while offering staff members a pleasant and productive environment at the same time. To reach these goals, tenants are willing to accept higher rents, which is reflected in an appreciable increase of both the prime rent and the average rent weighted according to unit size.

In order to learn more about the size of the premium segment in Cologne and its key user groups, we have analysed the rental transactions of the past few years and summarised our findings in our focus topic.

Please get in touch if you have any questions about Cologne's office space market, or would like to share your feedback with us.



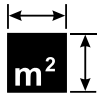
»The trend is towards high-quality space and modern office concepts.«

Andreas Reul

Head of Office Properties

Greif & Contzen Immobilienmakler GmbH

Office Space Market Cologne Q2 2023



75,000 m²

TAKE-UP OF SPACE

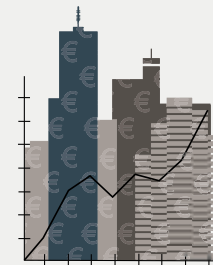
Demand for space in Cologne's office space market has decreased. Unlike in the previous year, no rental agreements were concluded for any office units of more than 10,000 square metres in the first half of the year.



270,000 m²

VACANT SPACE

A noticeable increase of vacant space could be observed in the first half of 2023. The vacancy rate is around 3.3 percent, or 3.8 percent if space available for sub-letting is also considered.



€ 30.00/m²

PRIME RENT

The prime rent rose to EUR 30.00 per square metre. The weighted average rent increased to around EUR 19.50. The highest rent realised was EUR 35.00 (maximum rent).



NEW WORKING ENVIRONMENTS

There is an increasing demand for modern workplace concepts that allow for flexible work to be combined with communication and productivity fostered in an appealing environment.



OUTLOOK

Take-up of space is expected to be considerably lower in 2023 than in the year before, and a further slight increase of vacant space is also likely.

Introduction

Overview

Letting

Available space

Premium segment

Outlook

Further information

Overview

Office space market Cologne – key figures, development and forecast

	2019	2020	2021	Development 2021/2022	2022	Trend	Forecast 2023
Take-up (000's m²)	290	230	315	→	315	↓	230
Existing space (million m²)	7.9	8.0	8.05	↗	8.1	↗	8.2
Completions (000's m²)	160	70	95	↗	110	↘	90
Vacant space (000's m²)	185	230	255	↘	230	↑	300
Vacancy rate in %	2.3	2.9	3.2	↘	2.8	↑	3.7
Maximum rent (in €/m²)	29.00	28.50	30.00	↑	36.00	→	36.00
Prime rent (according to gif) in €/m²	26.00	26.00	27.00	↗	28.50	↗	30.00
Average rent (weighted according to unit size) in €/m²	16.70	16.50	17.00	↗	18.50	↗	19.50
Average rent (mean value) in €/m²	14.00	14.00	15.30	↑	16.70	→	16.70
Employees* (000's) (as of June)	583	580	591	↗	607	→	607
Unemployment rate in % (as of June)	7.9	9.6	9.5	↓	8.4	↗	8.6

* employees contributing to social insurance

Source: Greif & Contzen Research, Cologne July 2023

Introduction

Overview

Letting

Take-up of office space

Rents

Available space

Premium segment

Outlook

Further information

Letting

Demand for space has declined

Few very large units were taken up

- A total of around 75,000 square metres were let in the first half of 2023. Owner-occupiers did not play a significant role.
- Three large units with a combined total of almost 100,000 square metres were taken up in the first half of 2022, so compared to this period, take-up decreased by about 66 percent.

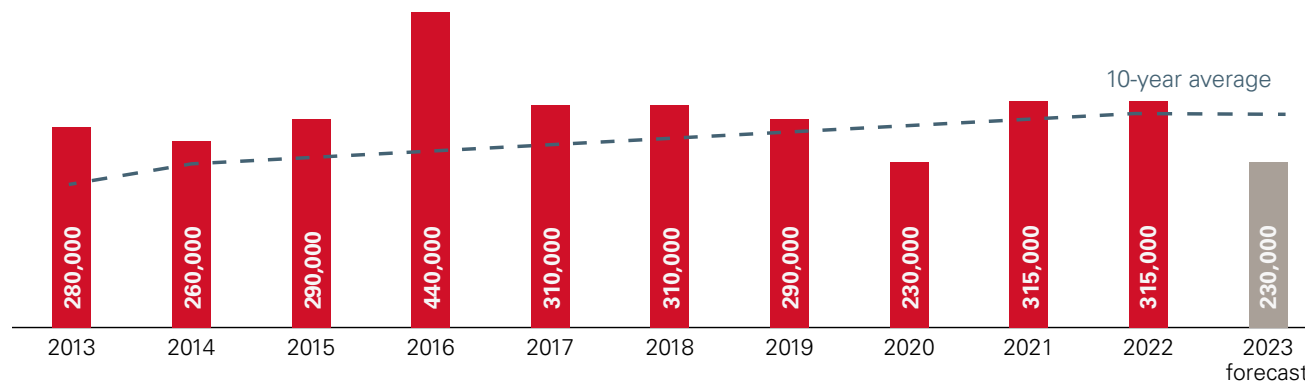
Trend towards high-quality office space

- Despite the economic downturn, there are still many office users with robust business development who are expanding and looking for space.
- A preference for high-quality office units that are designed for modern layout concepts can be observed in current requests.
- The two largest units taken up are located in city centre office buildings in mint condition.

75,000 m²

take-up of space Q1 – Q2 2023

Take-up of office space: development 2013 – 2022, 10-year-average and forecast for 2023 | in m²



Source: Greif & Contzen Research, Cologne July 2023

Introduction

Overview

Letting

Take-up of office space

Rents

Available space

Premium segment

Outlook

Further information

Selection of significant units taken up in 2023

User	Status	Office space in m ²
Church Pension Fund of the German Association of Dioceses (KZVK, Innenstadt Nord)	development project	approx. 9,150
Boston Consulting Group (Innenstadt Nord)	development project	approx. 7,250
BuddyBash (Gremberghoven)	existing space	approx. 2,980
Gym (Mülheim)	development project	approx. 2,200
Rödel und Partner (Rheinauhafen)	existing space	approx. 1,960
Education company (Ossendorf)	existing space	approx. 1,900

approx. 65 %
of the ten biggest transactions were accounted for by developments

Source: Greif & Contzen Research, Cologne July 2023



High-quality office space in existing buildings in Cologne-Deutz

Introduction

Overview

Letting

Take-up of office space

Rents

Available space

Premium segment

Outlook

Further information

Development of rents fuelled by user expectations and construction costs

Significant increase of rents

- Owing to contracts concluded for large, high-price units in the city centre, the prime rent rose to approximately EUR 30.00 per square metre in the first half of the year, while the average rent weighted according to unit size rose to around EUR 19.50.
- The unweighted average rent decreased slightly from about EUR 16.70 to now around EUR 16.20 per square metre.

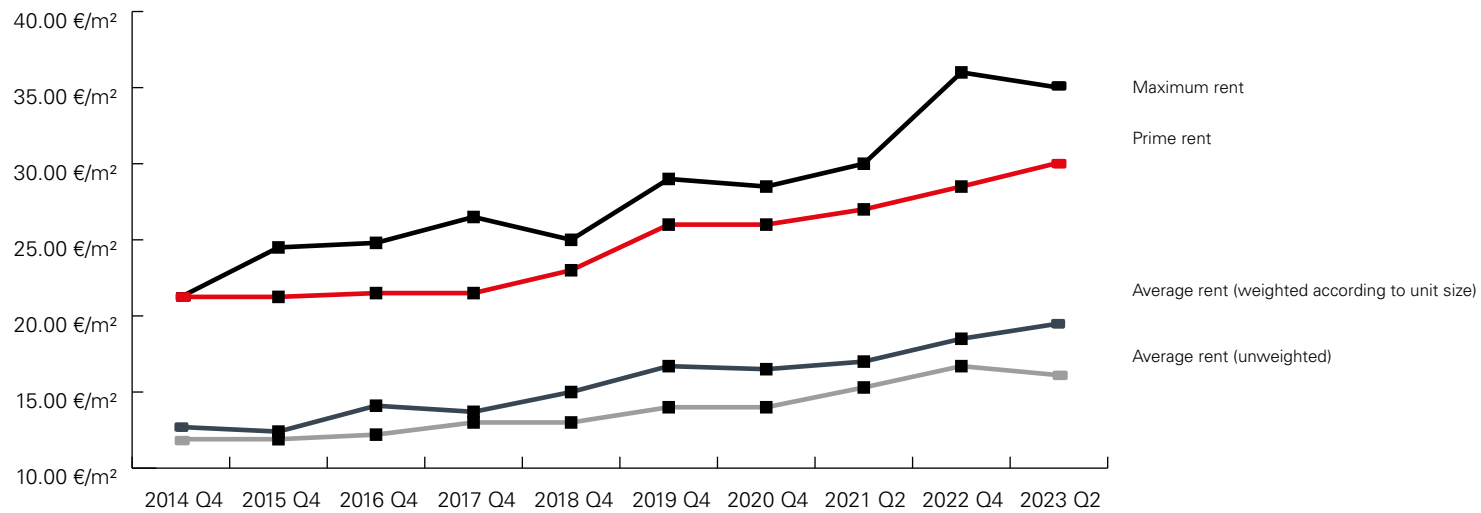
Rent increases are hardly avoidable

- The increase of prices is due not so much to a lack of availability, but to higher construction costs and the users' expectations regarding the quality of premises.
- In existing rental agreements, rents are frequently adjusted to the high rate of inflation based on indexation clauses.

EUR 30/m²

prime rent Q1 – Q2 2023

Development of office space rents 2014 to Q2 2023 | in €/m² per month



Source: Greif & Contzen Research, Cologne July 2023

Introduction

Overview

Letting

Available space

Construction activity

Vacant space

Premium segment

Outlook

Further information

Slight decrease in construction activity compared to 2021 and 2022

More than 15 office buildings will be handed over in 2023

- Around 90,000 square metres of office space are scheduled for completion in 2023, matching the 10-year average.
- A number of ongoing construction projects have been delayed.
- The pre-letting ratio is about 80 percent.

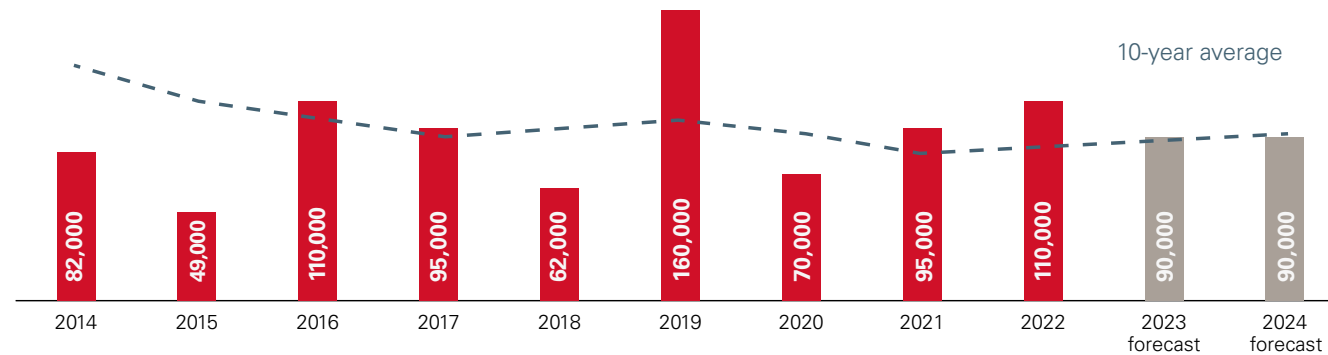
Another 90,000 square metres due for completion in 2024

- The number of projects due for completion in 2024 is slightly lower, but the total of space is likely to be matched.
- Two medium-sized development projects are being realised on a speculative basis. The overall pre-letting ratio is over 75 percent.

180,000 m²

new office space scheduled for completion 2023 – 2024

Development of completions 2014 – 2022 and forecast for 2023 – 2024 | in m²



Source: Greif & Contzen Research, Cologne July 2023

Significant construction activity in 2023 (selected properties under construction)

Property/submarket	Rental space in m ²	Completion
ROSSIO (Deutz)	around 25,000	2025
CENTRAAL (Deutz)	around 19,700	2024
OVUM (Braunsfeld)	around 18,400	2023
Mattes & Düxx, 1st part (Deutz)	around 12,500	2024

Source: Greif & Contzen Research, Cologne July 2023

Introduction

Overview

Letting

Available space

Construction activity

Vacant space

Premium segment

Outlook

Further information

Available space

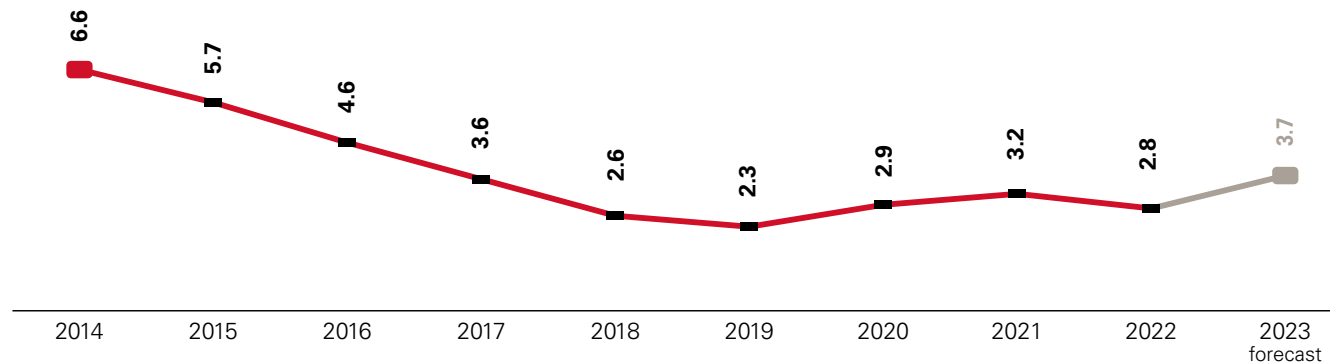
Vacant space increased noticeably in the first half of the year

Units are vacated across the city area

- Vacant office space increased by some 40,000 square metres to around 270,000 square metres in the first half of 2023. In addition, about 42,000 square metres of office space are offered for sub-letting.
- The current vacancy rate is about 3.3 percent, or 3.8 percent if space available for sub-letting is included.
- We are considering to include space available for sub-letting as standard, when calculating the vacancy rate for future reports.

The situation in less popular locations is more difficult once again

- Beyond the city centre, a few buildings were completed without being pre-let, giving rise to an increase of vacant space.
- Most development projects that are currently under construction and are not yet fully let, are being realised in the city centre, which has always enjoyed the greatest demand for space.

3.7 %vacancy rate
forecast Q4 2023**Vacancy rate 2014 – 2023 | in %**

Source: Greif & Contzen Research, Cologne July 2023

Introduction

Overview

Letting

Available space

Premium segment

Outlook

Further information

Premium segment

What are the developments in the premium segment of Cologne's office space market?

Once again, the prime rent has increased considerably since the start of the year, despite the economic downturn and the currently still low take-up of space. Around 19,000 square metres of office space in new and refurbished buildings and high-quality existing buildings were let in the high-price segment in the first half of 2023.

In the context of this analysis, the high-price segment includes rental agreements in which the rent agreed upon was no more than ten percent below the prime rent of the year in question. More than 80 rental agreements concluded since 2018 were examined to allow for a detailed analysis of trends in the premium segment.

What was the development to date?

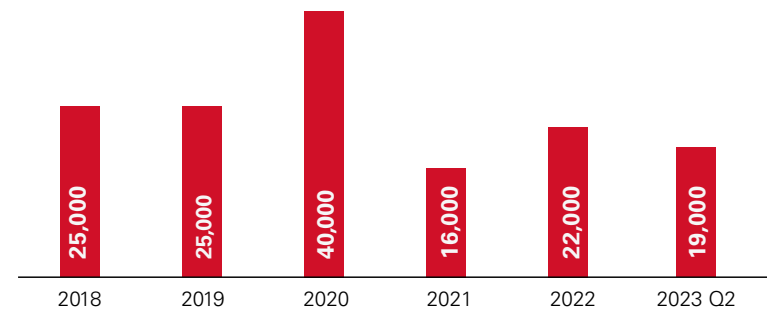
15 to 20 contracts per year

- Between 2018 and 2022, between 15 and 20 rental agreements were concluded in the premium segment every year.
- The total amount of space taken up in these transactions ranged between 16,000 and 39,000 square metres per year.
- These units therefore accounted for between 5 and 17 percent of the total annual take-up.
- In addition to many medium-sized units, a few very large transactions had a very noticeable effect, such as KPMG taking up space in MesseCity in 2020 or the unit let to Boston Consulting Group this year.

Consultancy companies are the most important demander group

- **Consultancy companies** including lawyers, for example, accounted for a market share of 32 percent in the period considered. This share is based on a large number of rental agreements across all size categories.
- **Public sector users** account for a share of 20 percent, owing to a few large transactions. However, their base rents are reduced by tax liabilities.
- **Coworking providers** took up large amounts of space in the top segment in 2018 and 2019. However, in the years thereafter they were largely absent as demanders (total market share of 14 percent).
- Around a third of the demand was shared by a wide range of other industries, which is characteristic of Cologne's office space market.

Take-up of space in the premium segment between 2018 and Q2 2023 | in m²



The market share accounted for by the premium segment was almost 17 percent in 2020, and as high as 25 percent in the first half of 2023.

Introduction

Overview

Letting

Available space

Premium segment

Outlook

Further information

The focus is on the city centre

- More than 80 percent of the space taken up was concentrated in the city centre. A particular focus was on the submarkets Innenstadt Nord, Kölner Ringe and Deutz.
- Individual high-price transactions were also realised in Ehrenfeld and Mülheim.

Important role of development projects

- Construction and refurbishment projects attracted around 70 percent of take-up in the premium segment.
- High-quality existing buildings still accounted for a share of 30 percent.

What are the characteristics of top quality office space?

- CAT 7 wiring and open-space layouts have been in great demand for a number of years now. Concerning the layout, lounge and communal rooms are gaining popularity, as these facilitate communication, a pleasant working atmosphere and flexible work. Another feature that is requested more frequently is bicycle parking space.
- Sustainability aspects are also becoming more and more relevant. Air-conditioning by means of concrete core activation is becoming more common, for example, and can be supplemented with ceiling sails. In addition, resource consumption is monitored and reduced throughout the construction process.
- Special infection protection measures that emerged during the COVID-19 pandemic have not become a standard feature.

Which future trends are becoming apparent?

- More and more companies wish to offer their staff modern and attractive offices, aiming to keep and attract highly qualified professionals. The goal here is for office space to contribute to productivity and a good working atmosphere.
- Flexible work must be integrated effectively, while also highlighting the advantages of working at the office rather than at home. This overall trend is likely to continue.
- In addition to energy-related aspects, overall resource consumption in a property's whole life cycle is playing an increasingly big role for tenants and investors alike, especially considering that there are now binding ESG guidelines that must be complied with.
- High construction costs and financing interest prevent a decrease of rents for new buildings and may lead to further rent increases. Tenants' willingness to pay high prices will depend on the development of the economy as well as on possible further inflation-based index adjustments of rents for existing buildings.
- Landlords should keep an eye on the rising ESG requirements and the standards expected by users, examine the space they own, and develop strategies to ensure they continue to meet these expectations.

Introduction

Overview

Letting

Available space

Premium segment

Outlook

Further information

Outlook

Economic situation curbs demand for space

Economic environment

- The German economy has entered a phase of recession. While inflation has decreased somewhat, it is still on a high level, prompting many private individuals to cut back on consumption.
- There is little stimulus for domestic economic activity from abroad, and the higher interest rates also have an inhibitory effect.
- The majority of research institutes forecast a moderate decrease of the gross domestic product in 2023 (-0.4 to +0.3 percent in one case).
- A slight overall decrease of the ifo business climate index was recorded in the first half of the year.
- The labour market has been developing relatively favourably to date, but some signs of deterioration are beginning to show.
- Fundamental risk factors of economic development include the further course of the war in Ukraine, inflation and monetary policy developments impacted by it.

Cologne's office space market in the second half of 2023

- The challenging economic situation is going to have an impact on the ability to make decisions regarding office space also in Cologne in many, but not in all cases.
- At this point it is to be expected that far less space will be taken up than last year.
- Assuming that an upturn will occur in the second half of the year, a total of around 230,000 square metres of office space could be taken up over the course of the year.
- Vacancies are likely to increase further.

230,000 m²

take-up of space
forecast for 2023



Diverse urban infrastructure in a central location: Hohenzollernring

[Introduction](#)[Overview](#)[Letting](#)[Available space](#)[Premium segment](#)[Outlook](#)**Further information**[Glossary](#)[Contact](#)[About Greif & Contzen](#)[German Property Partners](#)[Company details](#)

Glossary

Take-up of space

The take-up of space is the amount of office space 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 occupation, the date of the purchasing contract or the date the actual construction measure was begun is considered to attribute the measure to a certain time period. Lettings to final users in office centres or coworking facilities are not taken into account.

Vacant space

Completed office space that is currently not let or occupied and available for rent or purchase by an owner-occupier in the near term, is considered vacant space. The vacancy rate is the percentage of vacant space of the total of existing office space.

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 an office 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.
- **Benchmark rent**
This figure is specified for a geographically defined office submarket. It is based on the range of the standard deviation below and above the (unweighted) average rent.

[Introduction](#)[Overview](#)[Letting](#)[Available space](#)[Premium segment](#)[Outlook](#)**Further information**[Glossary](#)**Contact**[About Greif & Contzen](#)[German Property Partners](#)[Company details](#)

Contact

**Theodor J. Greif**

Managing Director / Owner
Greif & Contzen Immobilien GmbH
+49 221 937793-200
gl@greif-contzen.de

**Andreas Reul**

Head of Office Properties
Greif & Contzen Immobilienmakler GmbH
+49 221 937793-220
andreas.reul@greif-contzen.de

**Frank Pönisch**

Managing Director
Greif & Contzen Beratungsgesellschaft mbH
+49 221 937793-265
frank.poenisch@greif-contzen.de

**Dr. Jan Schubert**

Consulting, Research
Greif & Contzen Beratungsgesellschaft mbH
+49 221 937793-263
jan.schubert@greif-contzen.de

**Press contact****Stefan Altmann**

Head of Marketing and Communication
Greif & Contzen Immobilien GmbH
+49 221 937793-312
presse@greif-contzen.de

Address

Pferdmengesstrasse 42
50968 Köln
Germany
+49 221 937793-0
welcome@greif-contzen.de

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Introduction

Overview

Letting

Available space

Premium segment

Outlook

Further information

[Glossary](#)

[Contact](#)

About Greif & Contzen

[German Property Partners](#)

[Company details](#)

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1976

the year Theodor J. Greif started his one-man business as an estate agent



[Introduction](#)[Overview](#)[Letting](#)[Available space](#)[Premium segment](#)[Outlook](#)**Further information**[Glossary](#)[Contact](#)[About Greif & Contzen](#)**[German Property Partners](#)**[Company details](#)

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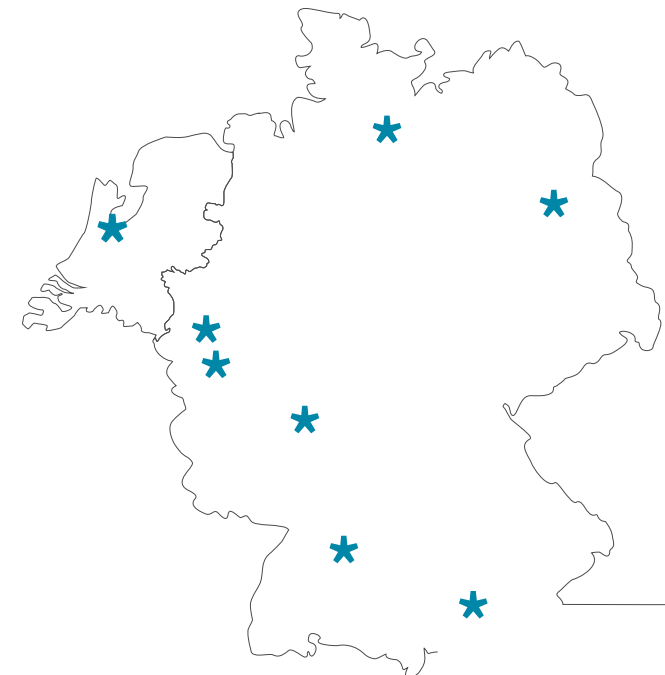
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[Introduction](#)[Overview](#)[Letting](#)[Available space](#)[Premium segment](#)[Outlook](#)**Further information**[Glossary](#)[Contact](#)[About Greif & Contzen](#)[German Property Partners](#)**Company details**

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Greif & Contzen Beratungsgesellschaft mbH
Pferdmengesstrasse 42
50968 Köln
Germany
+49 221 937793-0

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