

Pressemitteilung

Köln, 03. Januar 2024

Weak year for property investments in Cologne

In their latest market analysis, the property experts from Greif & Contzen report that the total investment transaction volume recorded in Cologne in 2023 was 800 million euros, and therefore a third lower than in the previous year.

2023 was a weak year in Cologne's property investment market, with a total transaction volume of around 800 million euros realised with commercial real estate. 1.2 billion euros had been turned over in the year before, and as much as 3.8 billion in the record-breaking year of 2021. In their latest market breakdown, Greif & Contzen's property experts explain that the changed financing environment is the main cause of this decline. "The interest rate hikes carried out by the European Central Bank gave rise to a fundamental transformation of the financing environment, even in 2022," says Thorsten Neugebauer, Head of Investment at Greif & Contzen Immobilienmakler GmbH. "This development continued all the way to the third quarter of 2023, and dictated the actions of the market participants." The rising level of interest rates made many of the properties available for sale less profitable for investors. Alternative investment opportunities appear more advantageous these days in comparison. While properties were still considered secure and lucrative assets back in 2021 owing to a lack of alternatives, their importance diminished in 2023 in favour of other options. In addition, financing conditions for prospective buyers are becoming more challenging on the demand side, mostly due to loans becoming more expensive. It has thus been a combination of mutually reinforcing factors that caused prospective buyers to reconsider their decisions, to postpone transactions or even turn away from the real estate investment market entirely. On the sellers' side, these difficult circumstances prompted many market participants to postpone plans to sell properties in consideration of the lower prices, hoping that the market situation will improve in the near future. The number of properties offered for sale decreased as a result. Declining demand paired with lower availability made 2023 the weakest year in Cologne's real estate investment market in a long time.

Favourable development for logistics properties

On closer inspection, the experts from Greif & Contzen identified one market segment where a certain level of investment success was achieved in the overall disappointing year of 2023: logistics properties. For many years, this segment had been overshadowed by office buildings which were considered to be a far more secure asset class. Owing to their light construction, often peripheral locations outside the city centres, and the fact



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that user demand can vary from year to year in line with the economic situation, logistics facilities were classified as riskier for many years.

Investors have started to reconsider this perspective, at the very latest since the COVID-19 pandemic. Thorsten Neugebauer explains: “An increasing number of office buildings is not fully let, many large enterprises are already relying on flexible working models, and others will follow suit. Redesigns and transformations are becoming necessary in order to realise modern office space concepts.” At the same time, online retailing and transformation processes in the industrial sector have led to a considerable increase in demand for logistics facilities, as well as to rising rents. This demand remained stable, even when the overall economic situation was poor.

In addition, there is a lack of availability of logistics facilities in the Cologne/Bonn region. Designated building land is scarce, and it will therefore be impossible to build enough logistics space to fix this shortage in the next few years. Initial yields for logistics facilities obtained by buyers have declined in the past year, owing to decreasing purchasing prices. However, this development is not as pronounced as is the case for office buildings, where a stronger decrease of purchasing prices could be observed. At around 4.4 percent, the logistics prime yield is currently on par with that achieved with office and retail buildings. At the end of 2022, the office prime yield was still 0.5 percentage points lower than the logistics prime yield.

Outlook

“Most investors continue to be reluctant for now,” says Thorsten Neugebauer. However, there are a few factors that suggest that a slight recovery could set in over the course of the year: inflation has decreased, and interest rates do not seem to be rising any further. “Some market participants believe that there is a realistic possibility that the base interest rate is lowered again in the first half of the year. This is also reflected by the 10-year Swap rates that peaked in October and have been decreasing since,” reports real estate expert Neugebauer looking ahead to 2024. Thorsten Neugebauer points out that the market appears to be gaining some momentum: “A slight recovery could be observed in recent weeks, and a number of office buildings were sold, including two properties with purchasing prices over 50 million euros.”

On the whole, the real estate experts from Greif & Contzen expect transaction activities to be at least at the current level in 2024, or possibly slightly busier. They stress, however, that a recovery is only possible if inflation does not increase again and if the prevailing geopolitical crises do not escalate further, giving rise to new uncertainties for investors.

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