

HOUSING MARKET REPORT

EASTERN GERMANY 2018



The entire study is available online at:

<https://www.tag-ag.com/en/service/downloads/housingmarketreport/>

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I. Intention of the study

To map the future viability of 27 large and medium-sized cities in Eastern Germany

- Continuously monitor market and housing industry indicators
- Provide current market data on rents, property prices, vacancies and yields
- Raise transparency on smaller real estate markets
- Promote the turnaround in Eastern Germany



II. **Key question:** How viable are Eastern German cities for the future?

1. **Economics:**

Developments in employment, purchasing power, GDP and commuter traffic provide valuable information.

2. **Demographics:**

Cities face the triple challenge of population growth, increasing numbers of households and evolving societal trends.

3. **Housing market:**

Rental and property price dynamics must be considered alongside purchasing power and housing cost burdens.

4. **Housing costs:**

The amount of housing costs determines the settlement of professionals and families.

5. **Risk/reward profiles:**

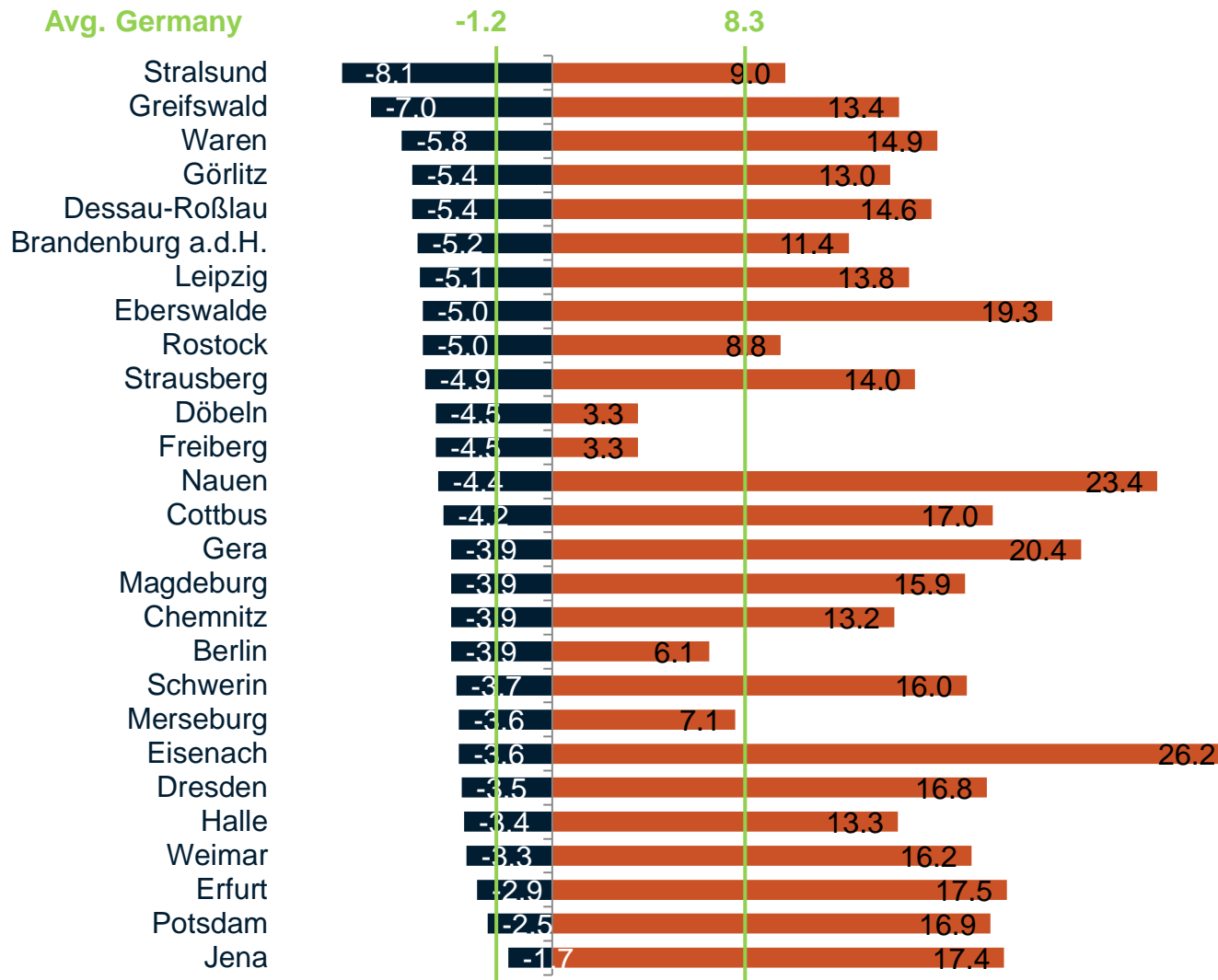
For residential investors, opportunities for higher yields are the decisive factor where risks are calculable.



II.1. Economics

The dynamic labour market is boosting productivity and incomes across the region as a whole.

Regional unemployment rates and GDP in comparison with national average:



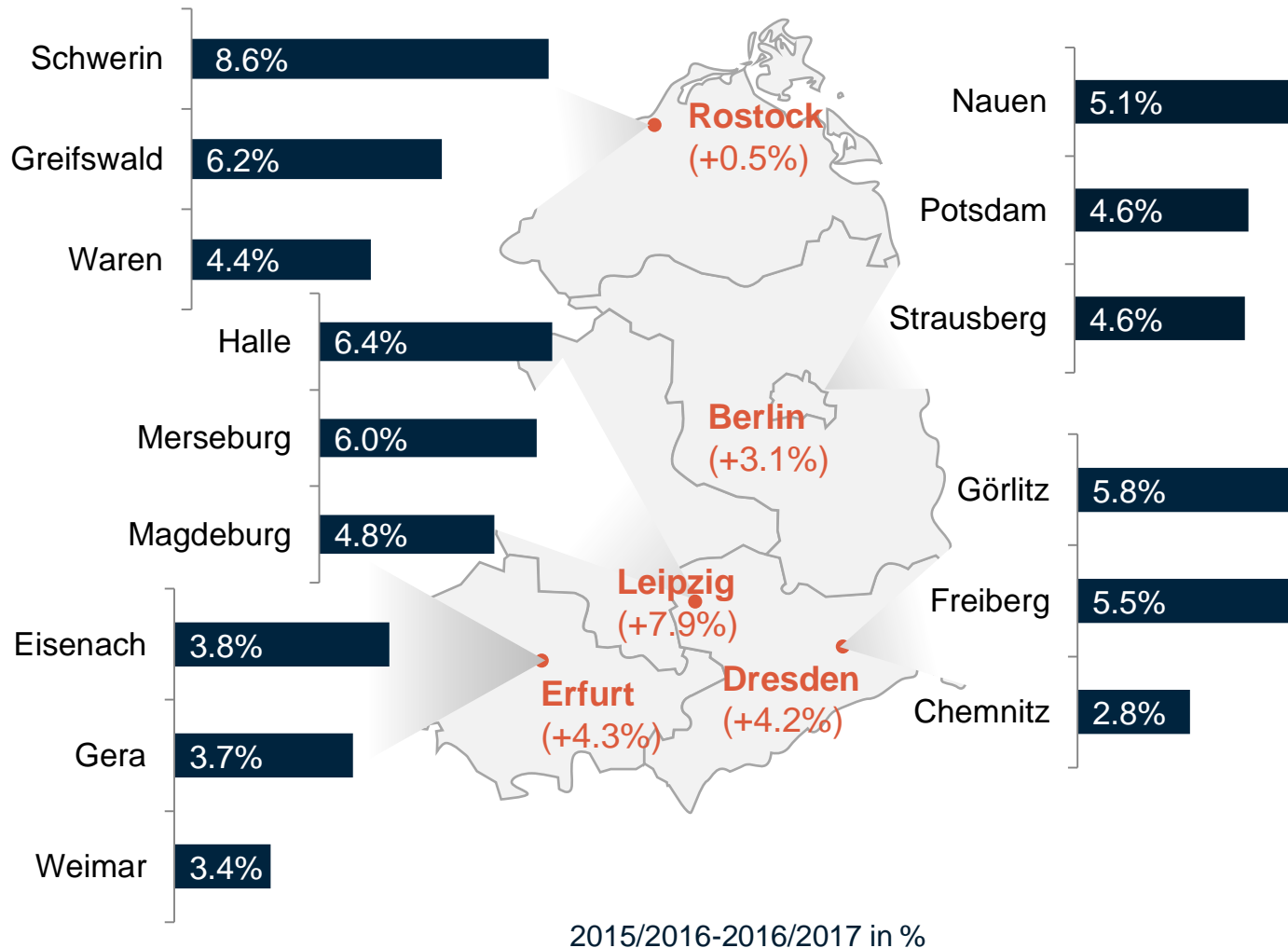
- Employment has increased in almost all locations.
Examples: Nauen, Berlin, Leipzig, Greifswald, Dresden, Erfurt and Strausberg registered growth of >10% (2012-2017).
- Dresden, Chemnitz, Potsdam, Erfurt and Berlin have seen the greatest increases in commuter traffic.
- Purchasing power rose significantly in all cities.
Examples: Cottbus, Leipzig, Berlin, Merseburg, Weimar and Erfurt registered growth of ≥ 20% (2011-2018).

■ Unemployment rate 2013-2017 in percentage points
■ GDP 2011-2015 in %

II.2. Demographics

Strong population growth over the last five years has had a very positive impact on the number of households and demand for housing.

Growth in household numbers



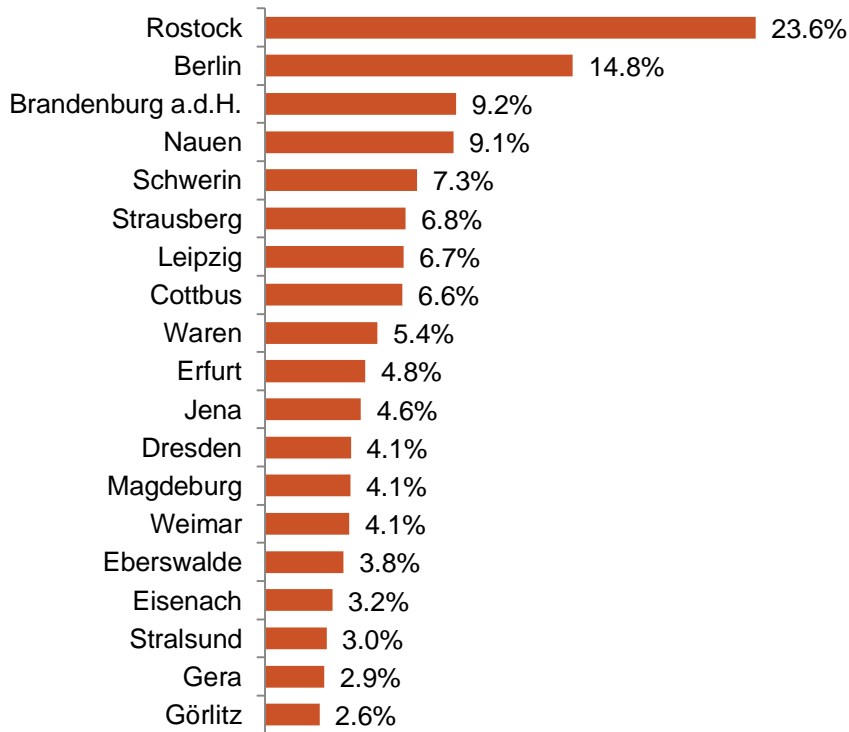
- The number of households in communities around the region's major cities has increased significantly.
- The strongest growth in the number of households was registered in Schwerin, Leipzig, Halle and Greifswald.

II.3. Housing market

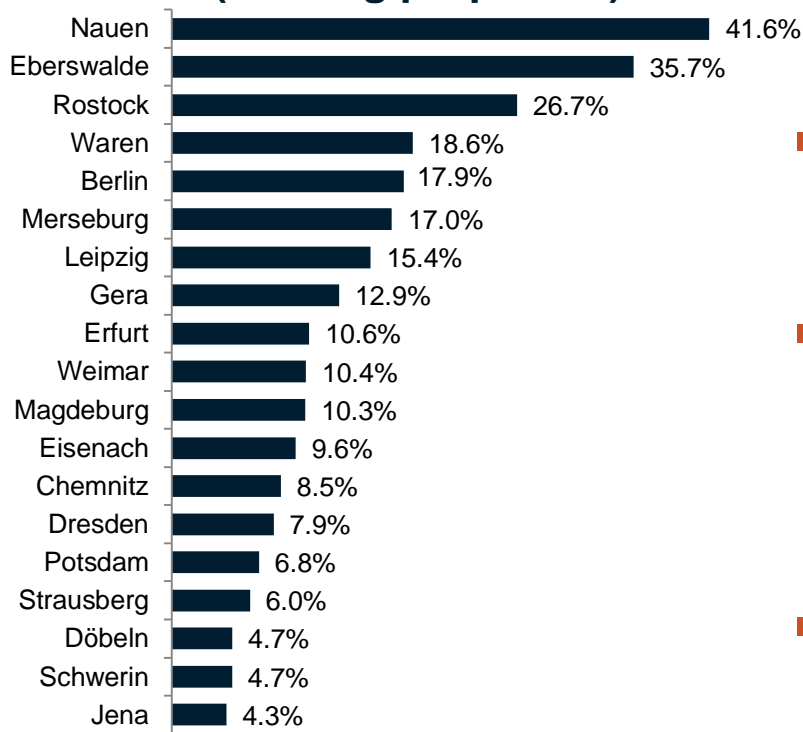
Strong population growth in communities around major cities is driving rental and property price growth.

Rental and property price growth in selected Eastern German cities

Rents



Purchase prices (existing properties)

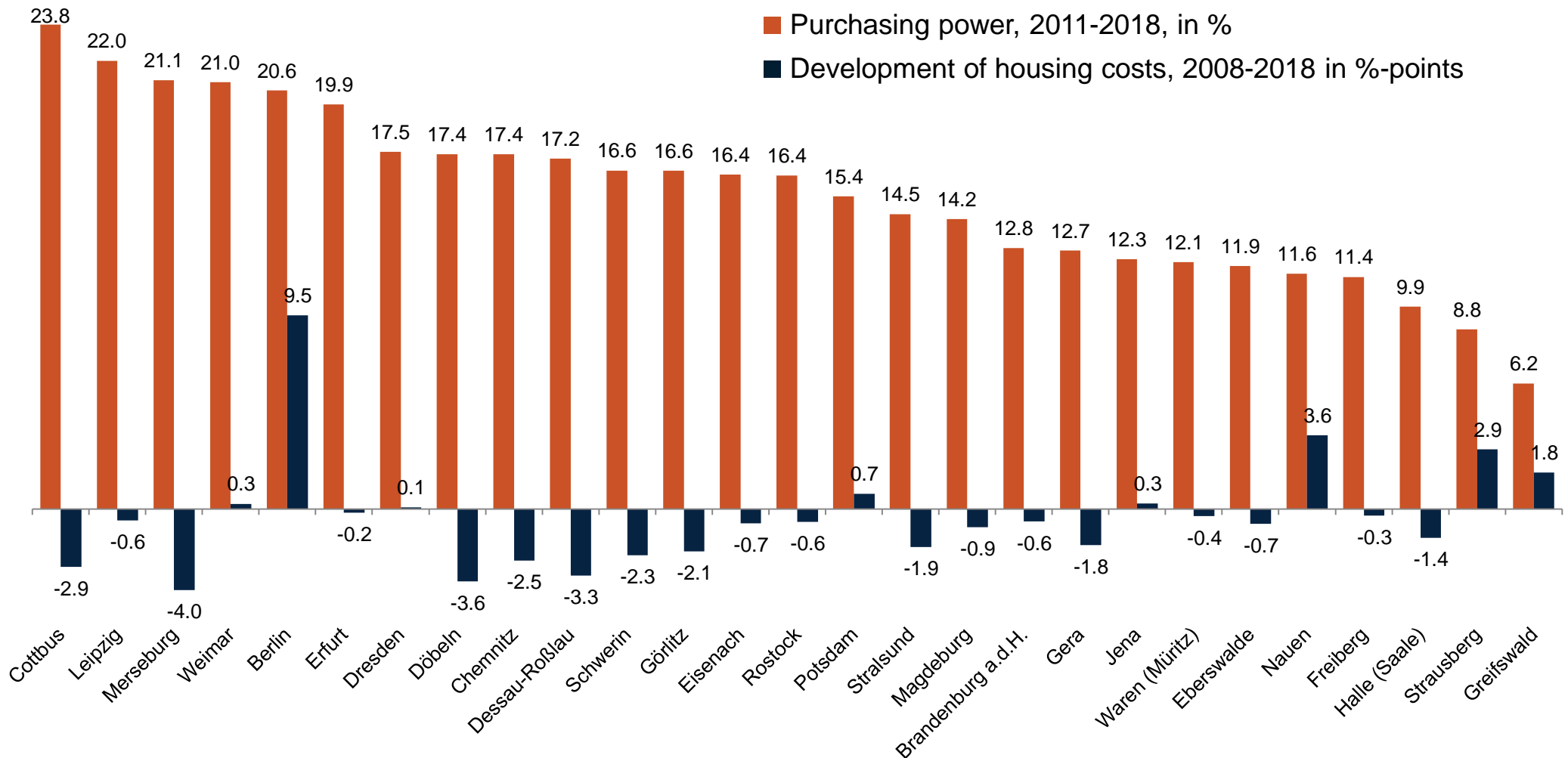


- Year-on-year, asking rents have risen almost everywhere in the region.
- Rental price growth ranges from 0.3% in Döbeln to 23.6% in Rostock.
- Purchase prices for existing properties have risen in 23 cities since 2017 – including increases of $\geq 10\%$ in 11 cities
- Prices in the new-build sector rose by between 3% in Magdeburg and $> 50\%$ in Brandenburg a. d. Havel.

Rental and property price growth H1 2018 vs. H1 2017 in %

II.4. Housing costs

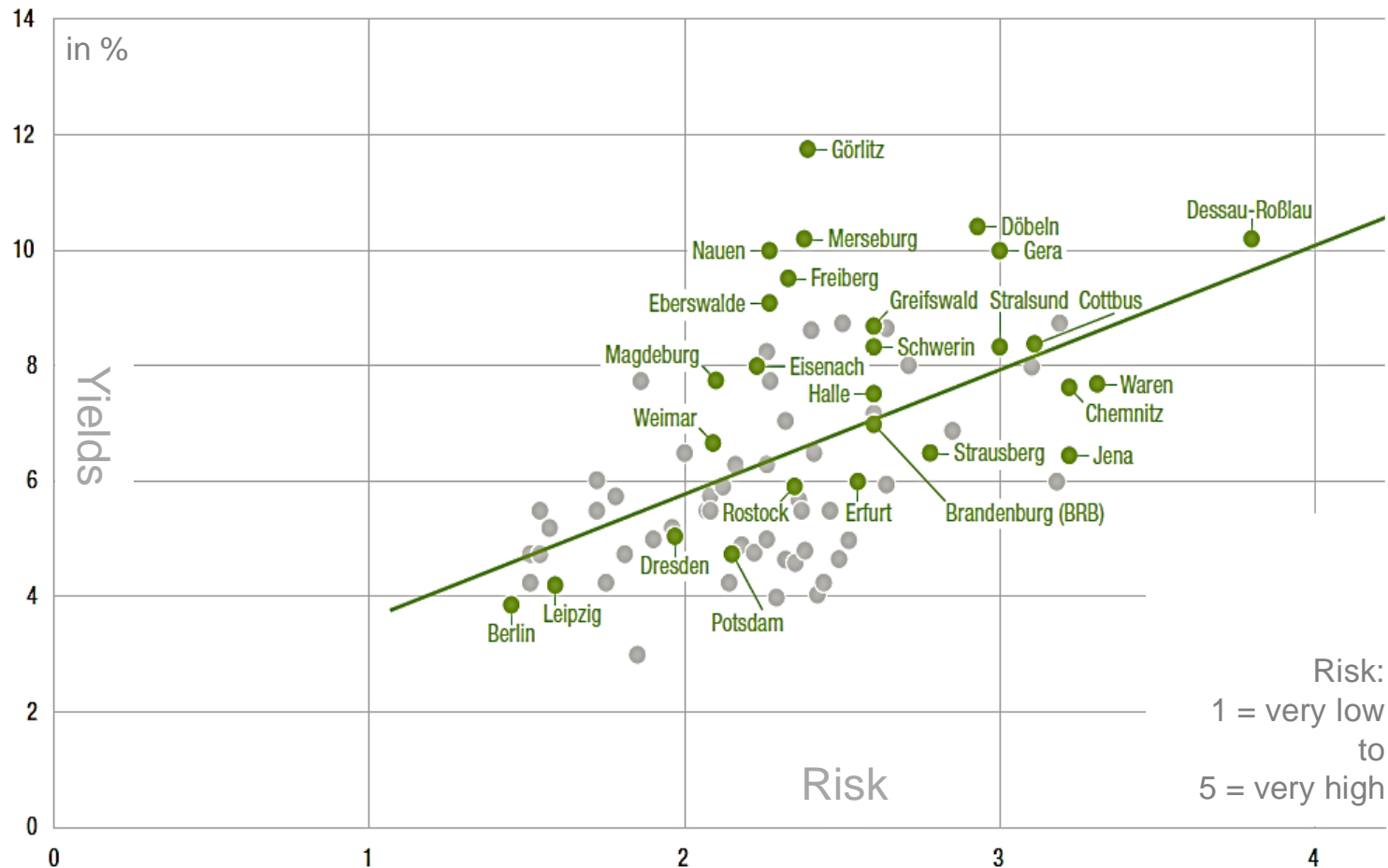
- Housing cost burdens are falling in spite of rising rents - thanks to the positive purchasing power dynamics.



II.5. Risk / reward profiles

Economic upswing, unemployment rates down across the board, strengthening purchasing power and declining vacancies are making Eastern Germany's small and medium-sized cities ever more attractive.

Risk/reward profiles in Eastern German cities in comparison with 50 reference cities



- Weimar is more attractive than Potsdam, with the same level of risk.
- Greifswald and Schwerin are more attractive than Erfurt.
- Many markets in Eastern Germany offer investors yield potentials of between 8% and 10%. Depending on investors' individual risk acceptance, these represent genuine investment alternatives.

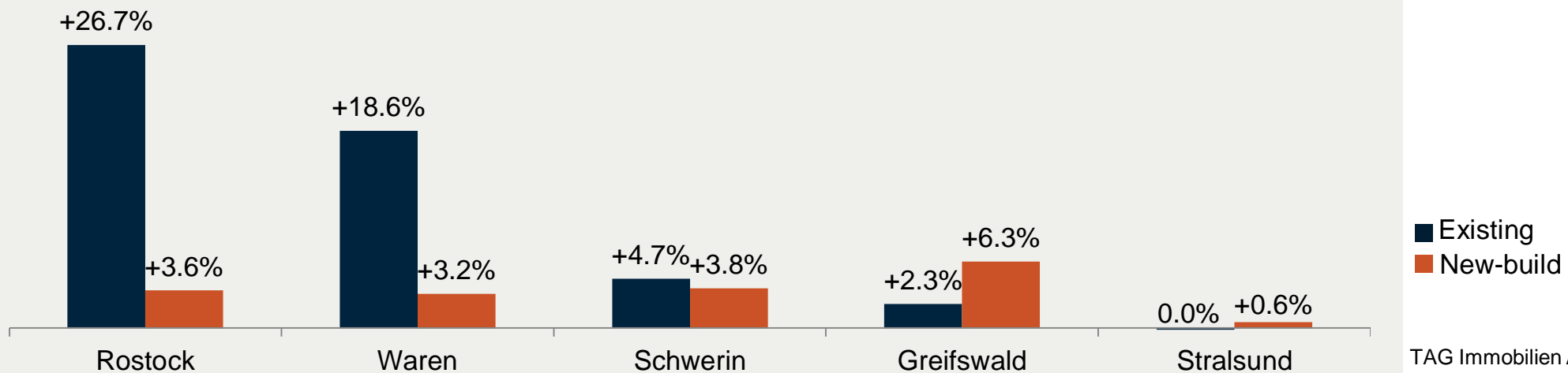
III. The Rostock Region



Purchase prices continue to rise strongly

- Value of existing properties in Rostock and Waren (Müritzk) rose significantly – Rostock: EUR 2,750/sqm, Waren: EUR 2,000/sqm.
- Strong demand for new-builds in Greifswald, Schwerin, Rostock and Waren.
- Prices in the new-build segment range from EUR 2,550 (Greifswald and Waren) to EUR 3,650/sqm (Rostock).
- Schwerin: Following price surges over the last two years, prices have now stagnated in both the new-build and existing segments.

Purchase prices for existing and new-build properties (H1 2018 vs. H1 2017) in %



III. The Rostock Region

Attractive risk/reward profiles in Mecklenburg-West Pomerania

- Residential investments in Greifswald and Schwerin carry the same average risk as investments in Erfurt, but with achievable yields of approximately 8.5%.
- 8.3% yields in Schwerin available to investors with higher levels of risk acceptance.

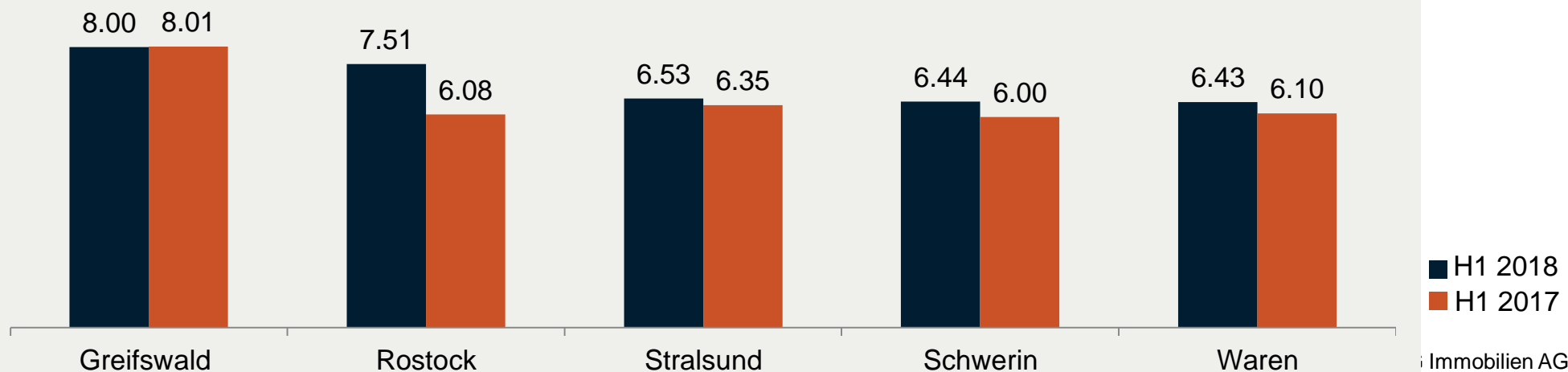
Risk/reward profiles in Mecklenburg-West Pomerania



III. The Rostock Region

- In Rostock, rents rose by a significant 23.6%. The causes are above all new construction projects, which were rented for the first time.
- Schwerin (+7.3%), Waren (+5.4%) and Stralsund (+3.0%) also registered further rental price growth.
- Rents in Greifswald remained unchanged at an already above-average EUR 8.00/sqm.

Apartment rents (2018 vs. 2017) in EUR/sqm/month



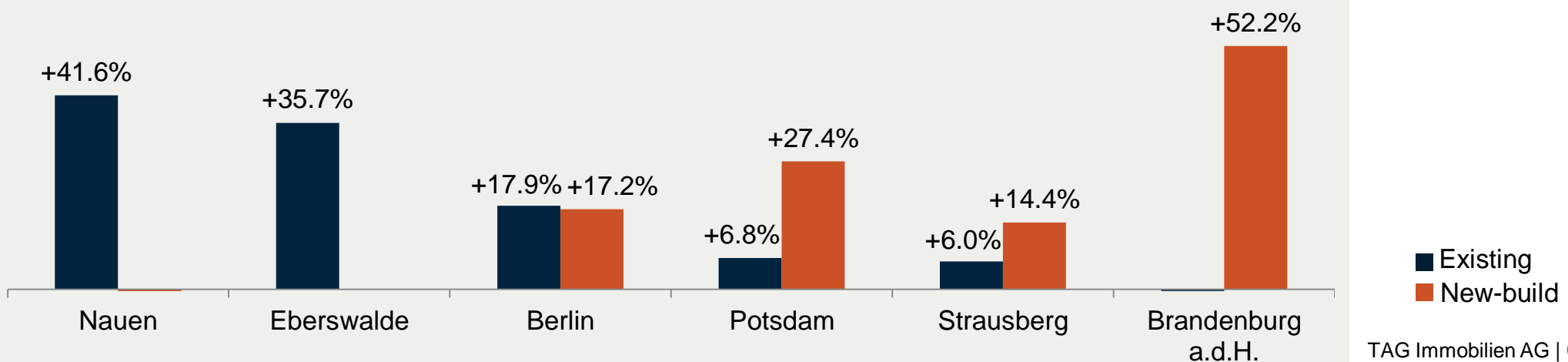
IV. The Berlin/Brandenburg Region



Property purchase prices rise significantly around Berlin

- Most dramatic increases for existing properties registered in Nauen and Eberswalde.
- In contrast, in Brandenburg a.d.H., Potsdam and Strausberg, the new-build segment saw the most dynamic price growth.
- Prices for existing properties range from EUR 1,000 (Eberswalde) to EUR 1,700/sqm (Strausberg), rising to EUR 3,000 in Potsdam and EUR 3,600/sqm in Berlin.
- Prices for new-build properties average between EUR 2,400 and EUR 3,000/sqm in surrounding communities, rising to EUR 4,800 in Potsdam and EUR 5,400/sqm in Berlin.

Purchase prices for existing and new-build properties (H1 2018 vs. H1 2017) in %

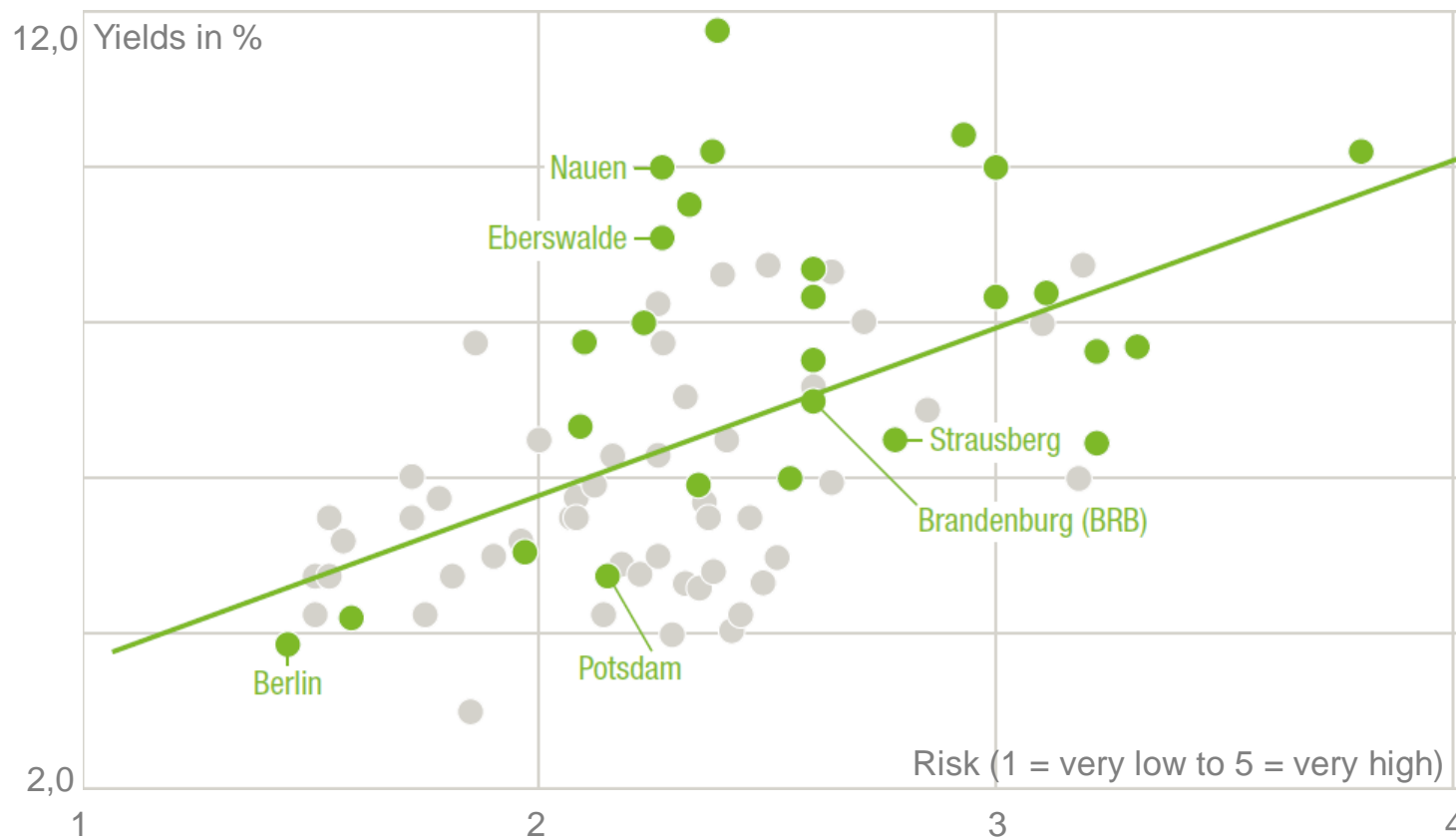


IV. The Berlin/Brandenburg Region

Investors would be well advised to consider the communities surrounding Berlin

- Eberswalde and Nauen boast achievable yields of 9% to 10% with lower than average risk exposure.
- Brandenburg an der Havel offers an attractive combination of moderate risk and average yields.

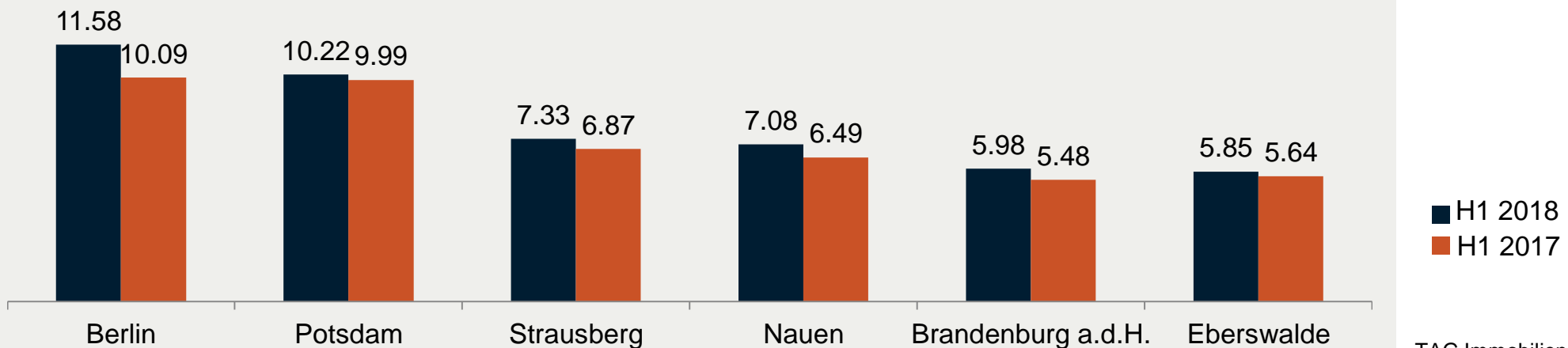
Risk/reward profiles in Berlin/Brandenburg



IV. The Berlin/Brandenburg Region

- Strong year-on-year rental growth in Brandenburg a.d.H. (+9.2%), Nauen (+9.1%) and Strausberg (+6.8%).
- Rents are also rising in Eberswalde and Potsdam – by 3.8% and 2.3% respectively.
- Berlin, already at a high level, again registered the strongest increase with +14.8%.

Apartment rents (2018 vs. 2017) in EUR/sqm/month



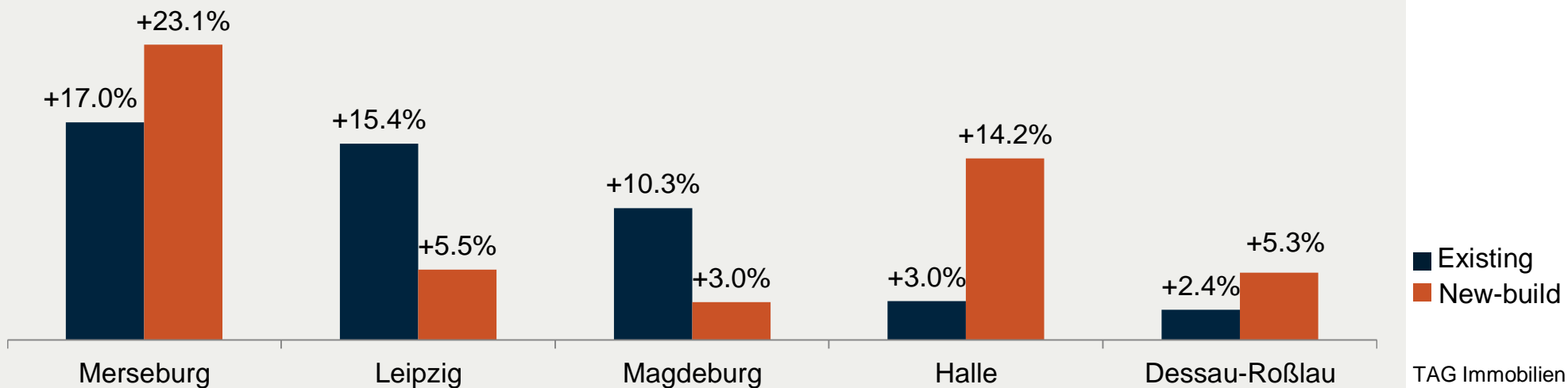
V. The **Leipzig** Region



Rising prices in the Leipzig area

- The growing demand for housing in Leipzig extends to the surrounding area.
- Prices for new and existing buildings are also rising in Merseburg, Halle and Dessau-Roßlau year-on-year.
- Merseburg saw the highest increases, with +17% (existing properties) and +23.1% (new-builds).
- New apartments are particularly in demand in Halle: +14.2% price growth.

Purchase prices for existing and new-build properties (H1 2018 vs. H1 2017) in %

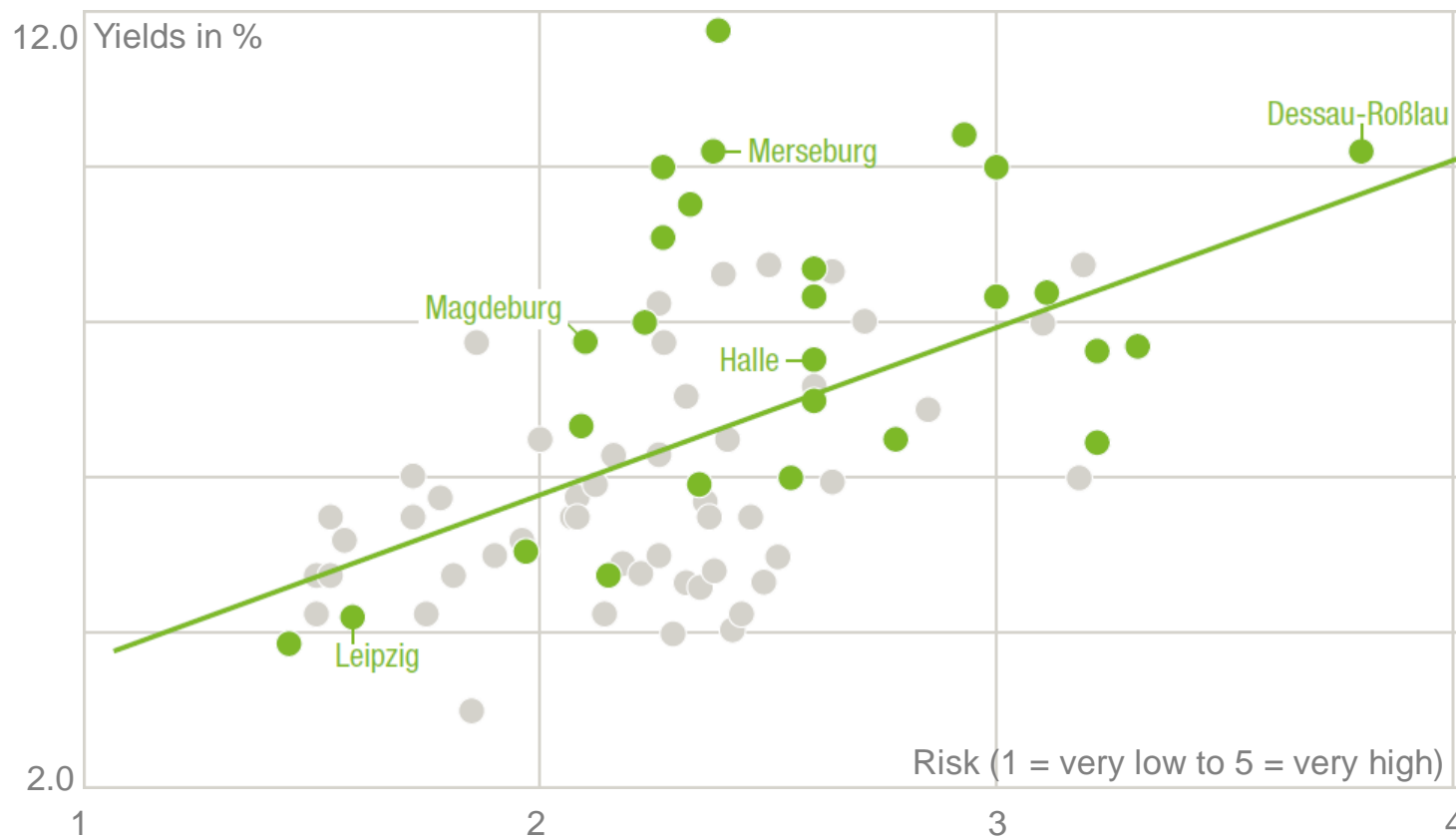


V. The Leipzig Region

Variety of risk/reward options

- Magdeburg very interesting from a risk/reward perspective with a yield of around 8% and below-average risk.
- Merseburg and Halle are also attractive.
- Investors willing to take risks should consider Dessau-Roßlau.

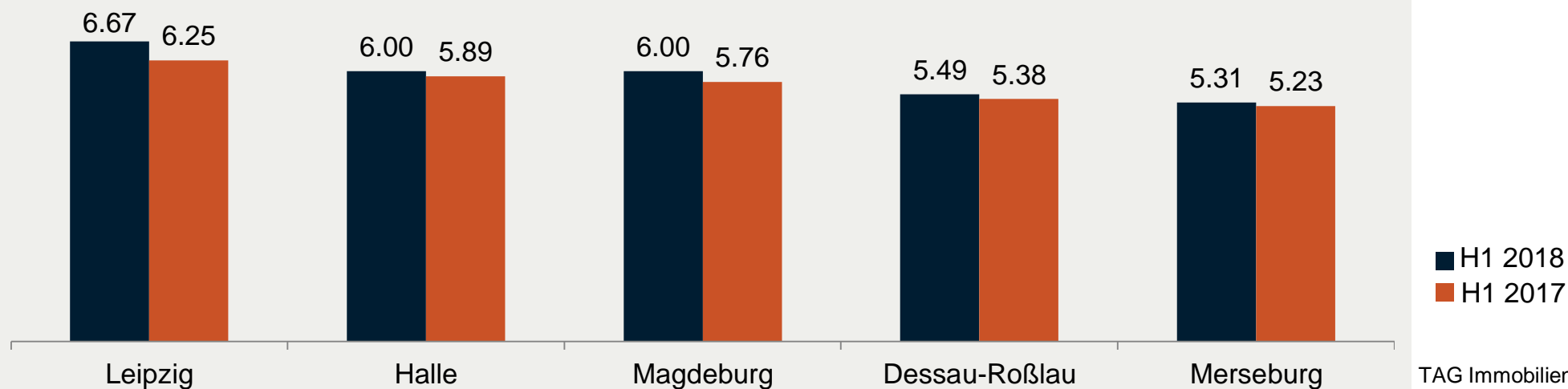
Risk/reward profiles for the Leipzig region



V. The Leipzig Region

- Within a single year, rents increased in Leipzig (+6.7%) and Magdeburg (+4.1%).
- Moderate rental growth also in Dessau-Roßlau (+2.0%), Halle (+1.9%) and Merseburg (+1.6%).
- Rents in all five cities are still affordable at prices between EUR 5.30 and EUR 6.70/sqm.

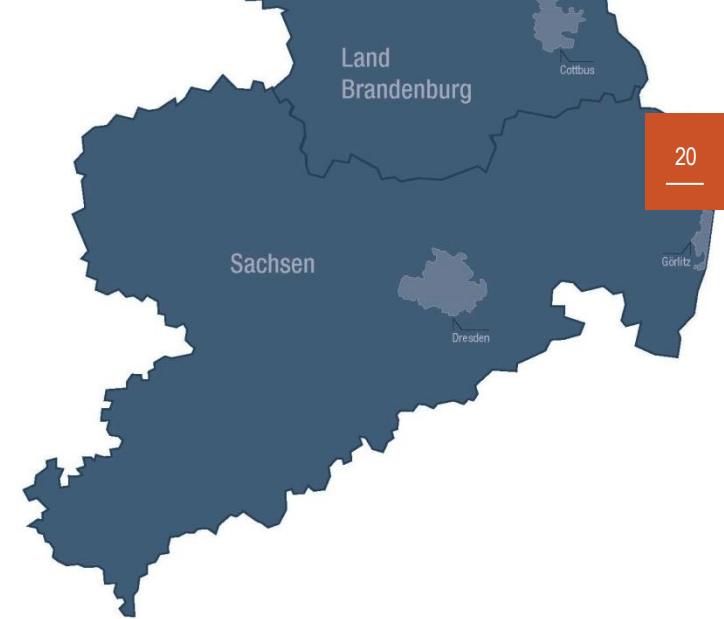
Apartment rents (2018 vs. 2017) in EUR/sqm/month



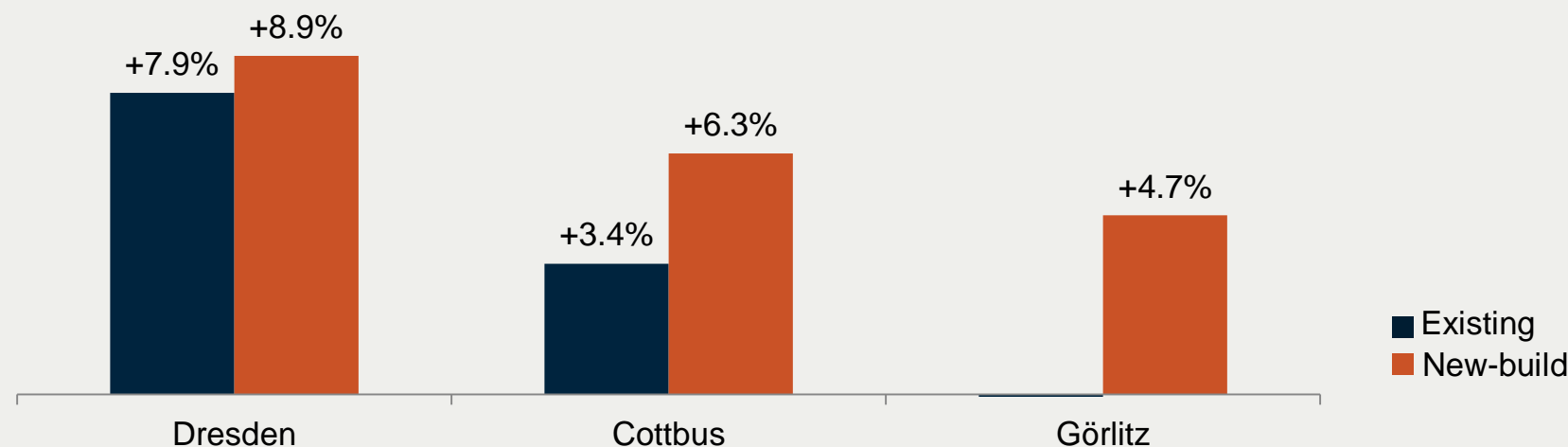
VI. The Dresden Region

Purchase prices continue to rise

- Purchase prices for new-builds rose almost uniformly in the region – between 4.7% in Görlitz and 8.9% in Dresden.
- Prices for existing residential properties also rose noticeably in Dresden and Cottbus, with almost no change in Görlitz after a significant increase in 2016.



Purchase prices for existing and new-build properties (H1 2018 vs. H1 2017) in %

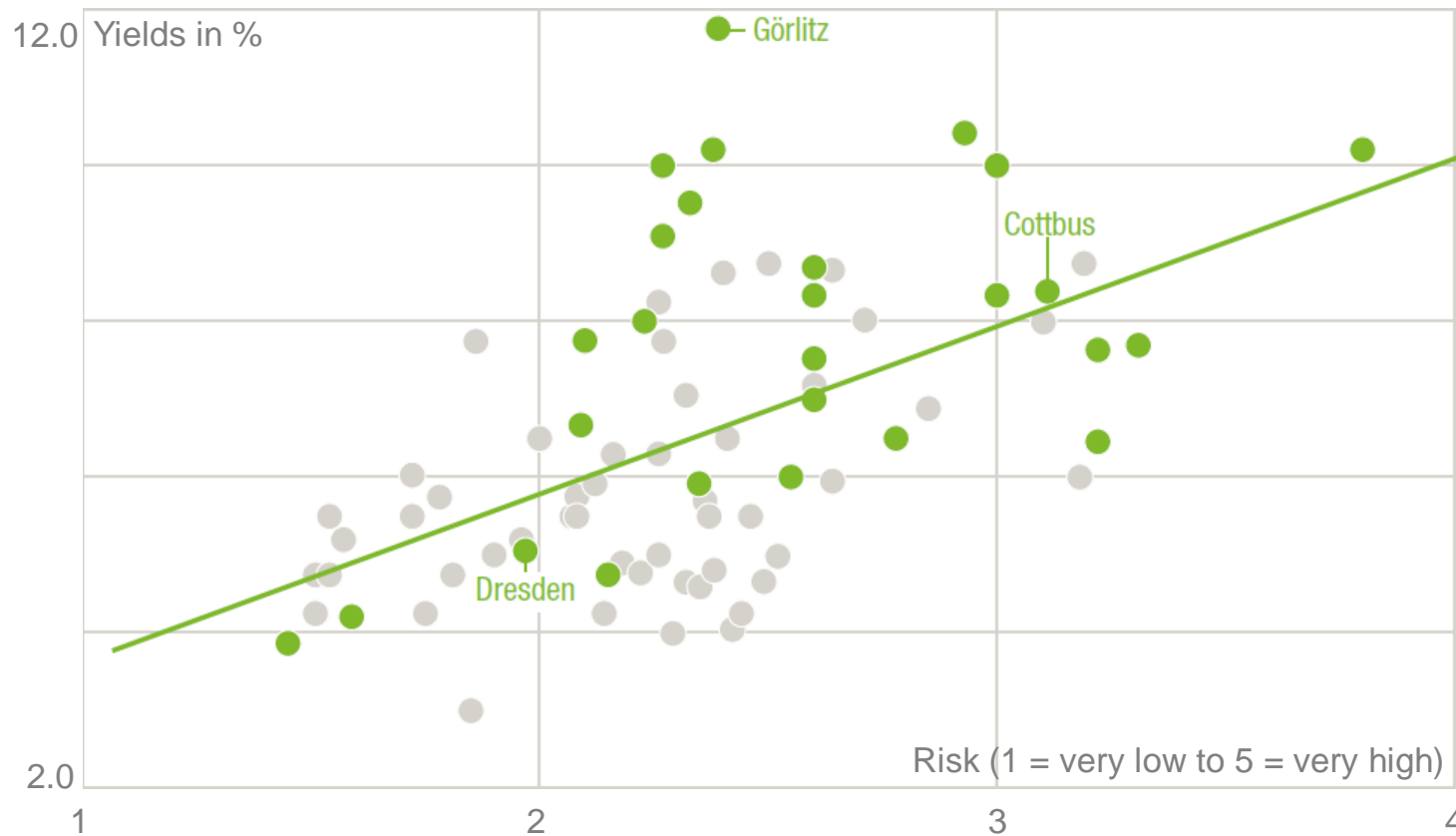


VI. The Dresden Region

Risk/reward ratios: Hotspot Görlitz

- Görlitz offers almost 12% return with average investment risk.
- Cottbus with a balanced risk/reward profile.

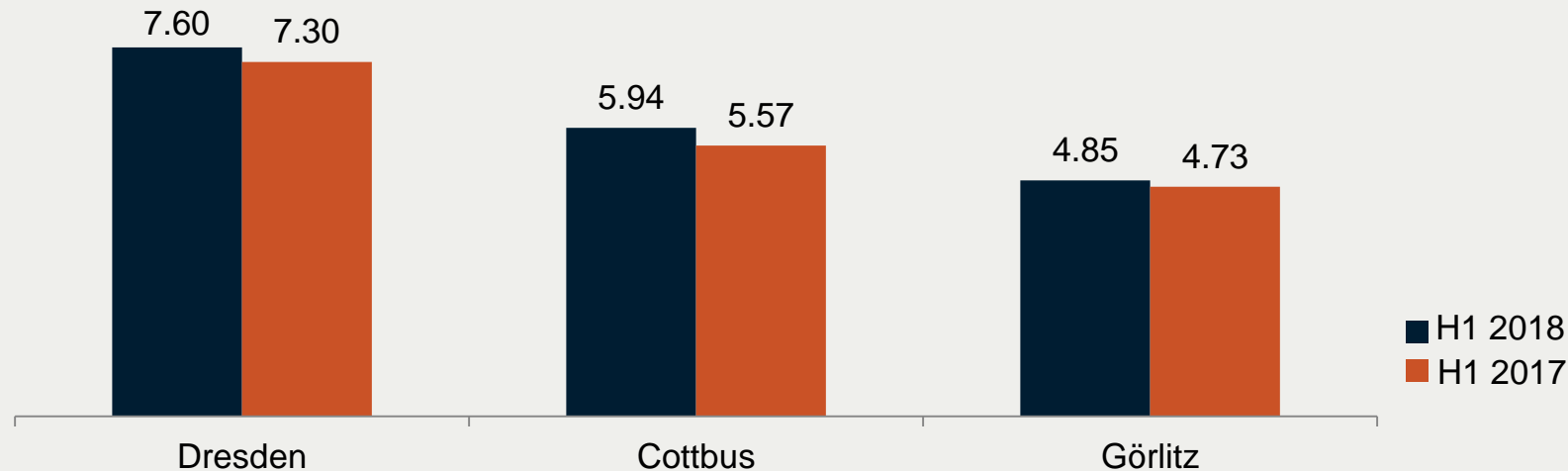
Risk/reward profiles for the Dresden region



VI. The Dresden Region

- The rising demand for housing is causing rents to rise not only in Dresden (+4.1%), but also in the nearby cities of Cottbus (+6.6%) and Görlitz (+2.6%).
- With an average housing cost burden of 20%, Cottbus and Görlitz remain affordable. Dresden is only slightly higher at 23%.

Apartment rents (2018 vs. 2017) in EUR/sqm/month



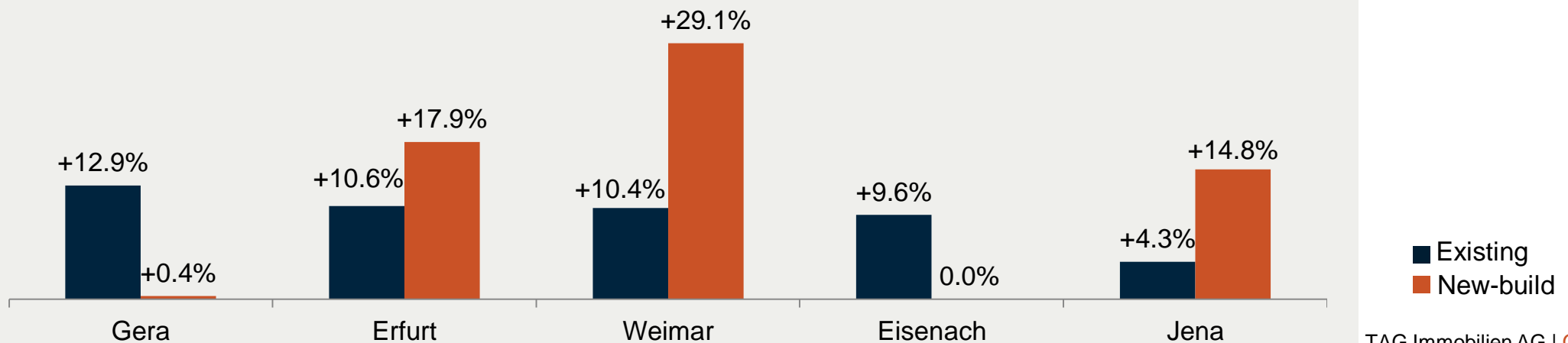
VII. The Erfurt Region



Purchase price boom in Thuringia

- In the entire region, prices for existing apartments have risen significantly by around 10% and more over the last year.
- Exception Jena: At more than EUR 2,000/sqm, apartments here are already relatively expensive.
- However, prices for new apartments in Jena continue to rise significantly, as do new-builds in Erfurt and Weimar

Purchase prices for existing and new-build properties (H1 2018 vs. H1 2017) in %

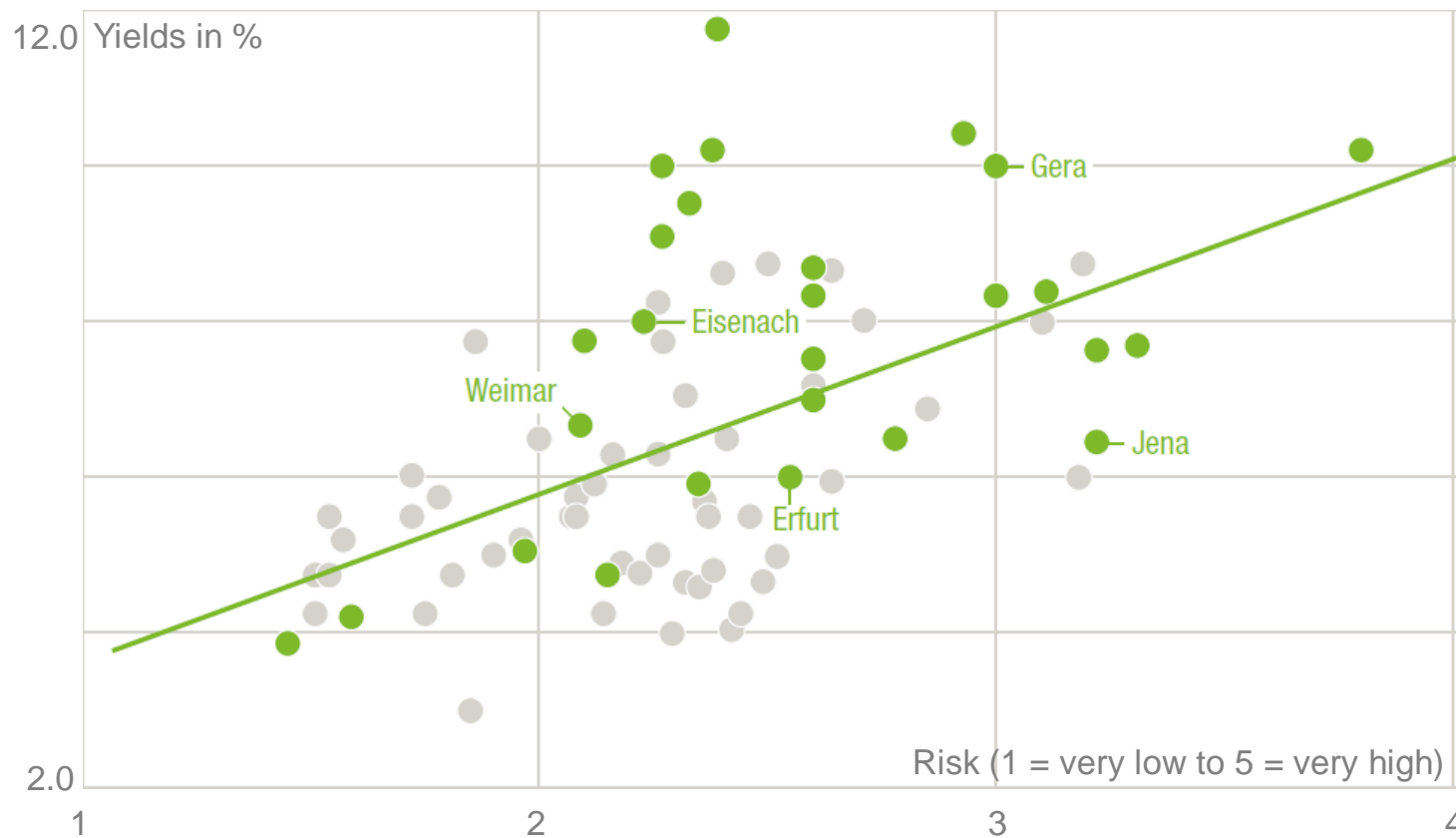


VII. The Erfurt Region

Attractive risk/reward ratios in Thuringia's second tier

- Weimar, Eisenach and Gera have well balanced risk/reward ratios: achievable yields rise in line with increasing risk.
- Weimar with below-average risk is similar to Potsdam, but offers 1 %-point better yields.

Risk/reward profiles for Thuringia



VII. The Erfurt Region

- Asking rents in Thuringia increased comparatively uniformly by between 2.9% (Gera) and 4.8% (Erfurt).
- Rents in Jena of just under EUR 9.00/sqm are already at a high level, in Gera and Eisenach rents of less than EUR 6.00/sqm are still affordable.
- The housing cost burden lies between 19% in Gera and 26% in Jena.

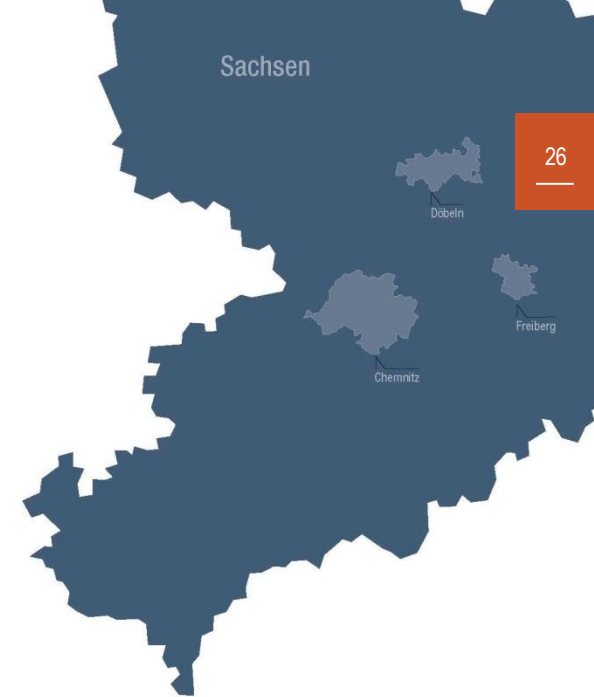
Apartment rents (2018 vs. 2017) in EUR/sqm/month



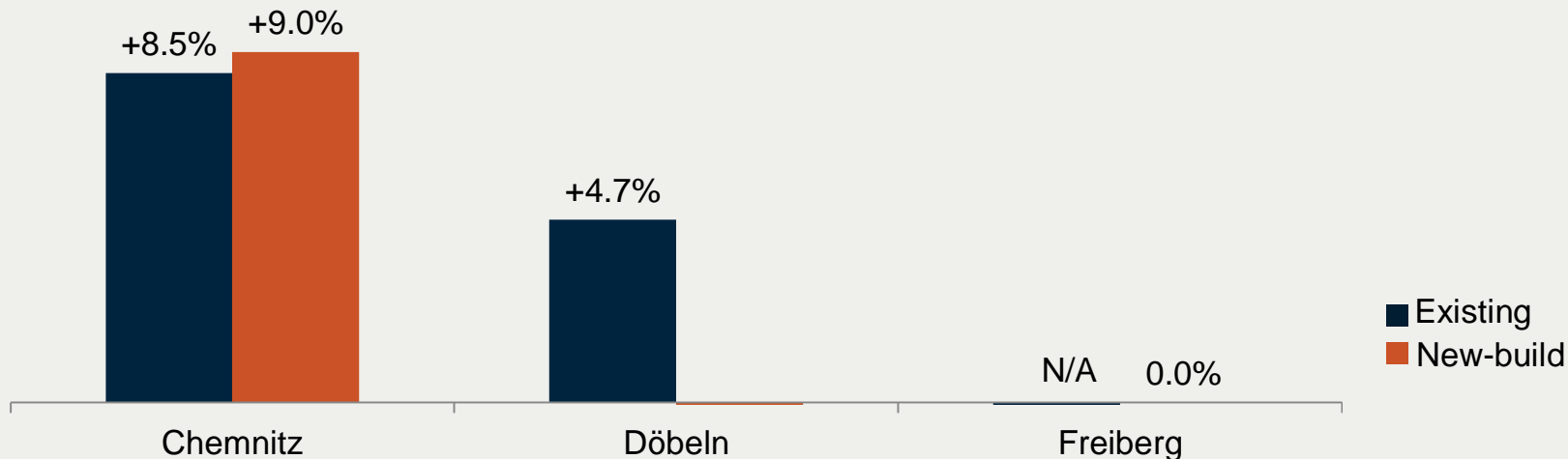
VIII. The Chemnitz Region

Growing demand in Chemnitz causes prices in the new-build segment to rise

- Purchase prices in Chemnitz have risen considerably year-on-year, both for new-builds and for existing properties.
- Rising prices also for existing apartments in Döbeln.
- The new-build segment in Döbeln and Freiberg remains relatively small.



Purchase prices for existing and new-build properties (H1 2018 vs. H1 2017) in %

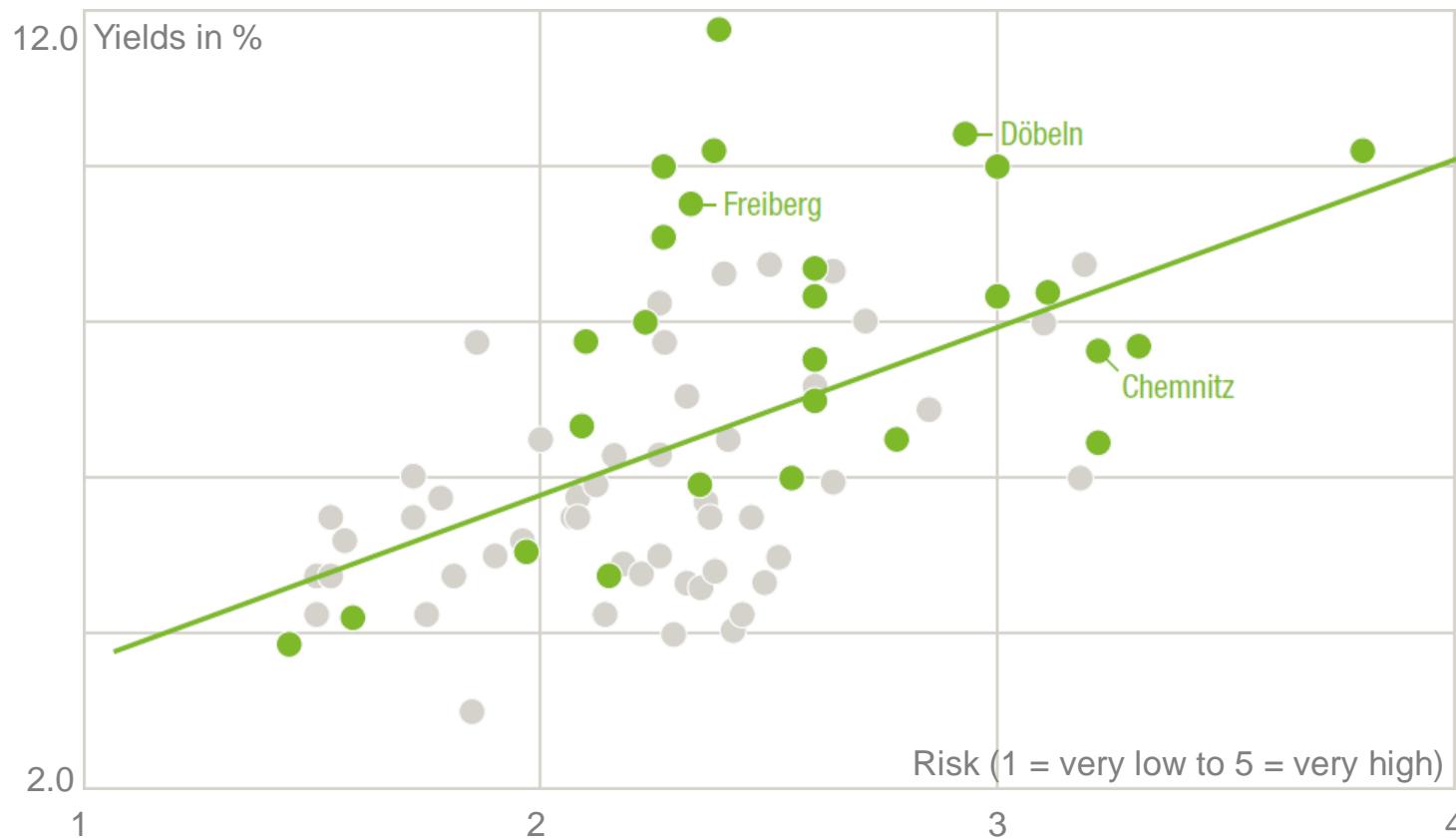


VIII. The Chemnitz Region

Risk/reward ratios in

- Freiberg with average investment risks, but achievable yields of just under 10%.
- Döbeln also offers returns of 10%, but at higher risks.

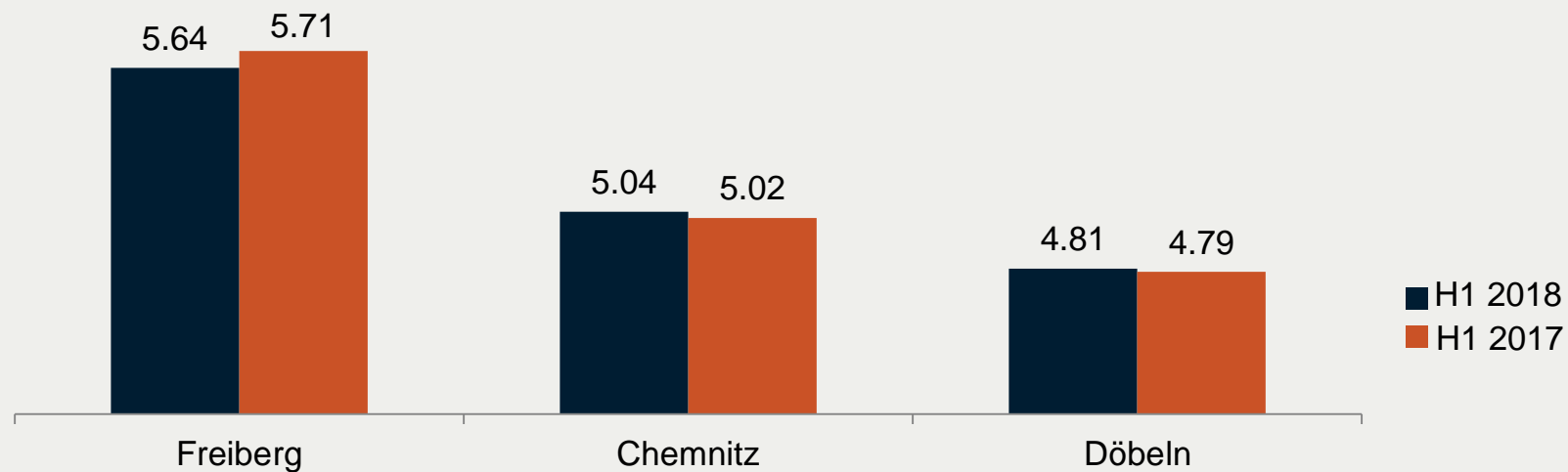
Risk/reward profiles for the Chemnitz region



VIII. The Chemnitz Region

- Asking rents in the Chemnitz region remain unchanged year-on-year.
- A five-year comparison shows slight rent increases of 1.8% in Döbeln and 2.7% in Chemnitz.

Apartment rents (2018 vs. 2017) in EUR/sqm/month



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