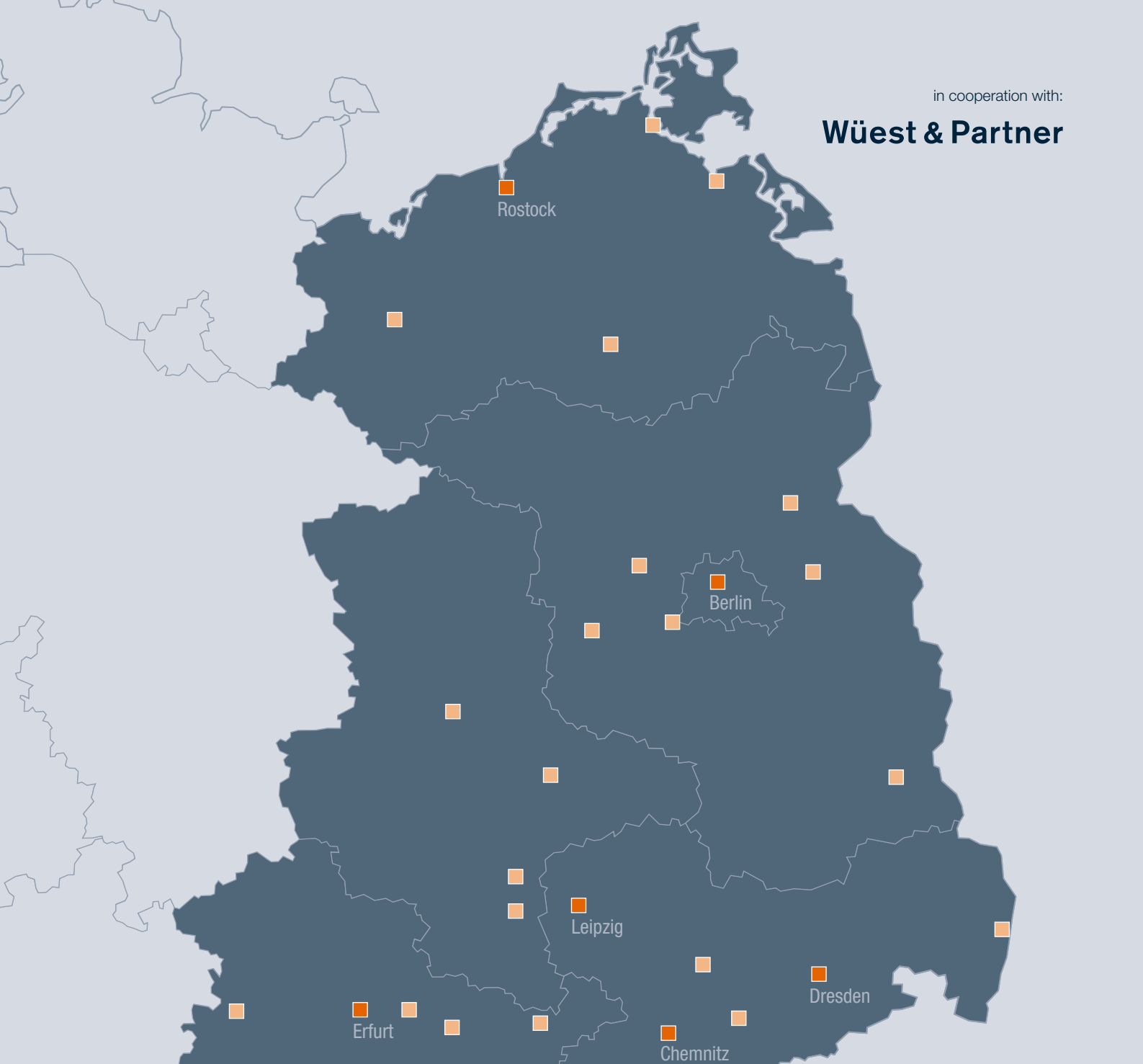


in cooperation with:

**Wüest & Partner**



# Housing Market Report Eastern Germany 2016

**TAG**  
Immobilien AG

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# Dear Reader,

More than a quarter of a century ago, East and West Germany were reunified. For Eastern Germany's states in particular, the intervening 26 years have been a period of rapid change: new infrastructure, programmes to support regional economies, and the modernisation of housing stock. Measures implemented under the banner "Aufbau Ost" (Rebuild the East) were wide-ranging, designed to prevent mass outward migration to Western Germany. In the first few years after reunification, these measures were only moderately successful.



The situation is very different today. Eastern Germany has long since reversed the post-reunification trend. And not just in the region's major cities, Dresden, Leipzig and Jena, which stepped into the limelight in the mid-1990s and have been there ever since. We've now reached the point where people from Western Germany are happily moving to the East. They come to study in the regions' large universities and smaller technical colleges – in Mecklenburg's Greifswald, for example, or Saxony's Freiberg. The previous (western) German was the first to fully appreciate the region's medium-sized cities, valuing their rich cultural heritages and overall quality of life. And let's not forget the large number of modernised Wilhelminian apartments in the central districts of Eastern Germany's most beautiful towns and cities, absolute pearls found in places like Weimar and Görlitz, and available for a fraction of the rent in Western Germany's major cities. Quite a few people from Cologne or Hamburg have found a new home in the East – and now have more money in their pockets as a result.

It is cheaper to live in Eastern Germany than it is to live in the West, even today, and despite double-digit rental and property price increases in many Eastern regions. And it is not just the small, commuter-belt towns around Berlin or Dresden that have seen their populations expand as housing has become more expensive and ever scarcer – the desire to live in an urban environment has also led to population growth in towns such as Merseburg and Dessau.

As a housing company with a defined focus on Eastern Germany, we have a particular interest in developments across the region. What opportunities are there for landlords and investors in Eastern Germany's medium-sized and major cities? What risks and challenges need to be recognised and accepted if previously neglected locations are to develop positively?

In order to provide you, and ourselves, with the answers to these questions, we asked the real estate services company Wüest & Partner to compile and analyse a full range of relevant housing market parameters in selected cities in Eastern Germany. Their comparison of rents, property prices, price-to-rent ratios, yields and micro-economic data for each of the cities has revealed some very exciting developments. Our report begins by providing details on a range of geographically differentiated developments that every investor should know. At this juncture, we can already reveal one of the report's most important findings. In the past, people often referred to an "Eastern German property market". Our analysis makes it abundantly clear – there is not one property market, there are various distinct markets. Prepare to be surprised ...

We hope you enjoy reading this report.

Claudia Hoyer  
Executive Board (COO)

Martin Thiel  
Executive Board (CFO)

Dr. Harboe Vaagt  
Executive Board (CLO)

# Executive Summary

One look at Eastern Germany's housing markets reveals that there has been a trend reversal. Outward migration from Germany's Eastern states has come to an end. But, as in many other regions, the markets are heterogeneous and the development of rents and property prices is shaped by a combination of different factors. Urban or rural locations plays just as much of a role as regional affiliation, transport infrastructure and economic or population growth. Although double-digit price rises have been registered in some areas, it is still comparatively cheap to live in Eastern Germany – and in an environment that is just as attractive and comfortable as the West. This is a major plus for the region's cities, and has attracted more and more residents, many of whom have moved from Western Germany. As a result, countless opportunities are opening up for investors.

## Strong demand for housing in large cities

Rapid urbanisation is also having a positive impact on Eastern Germany. Major cities, including Berlin, Leipzig, Jena and Dresden, have seen their populations surge over the last few years. The same applies to a number of state capitals, such as Potsdam, Erfurt and Magdeburg. Smaller university towns like Freiberg and Greifswald are attracting growing numbers of young people, especially those who want an urban lifestyle but can't afford the cost of living in a big city. All of these cities have profited from above-average growth in demand for housing.

The smaller, commuter-belt towns around Berlin that are included in this report are also doing well – above all, those that have the most convenient road and rail links to Germany's capital. The higher the cost of living in Berlin (and Potsdam), the better the prospects of growth are for smaller, more peripheral localities. For example, Strausberg, which is 54 kilometres from Berlin and has a population of 26,000, has seen residential investment properties change hands at prices of up to 25 times annual net rental income – a higher price-to-rent ratio than in any other town or city in Brandenburg. Such high prices are only possible because of the town's commuter rail line that runs to the heart of Berlin. A significant proportion of Strausbergers are commuters, and they can travel to Berlin's central train station in less than 45 minutes.

## Significant reductions in vacancy rates

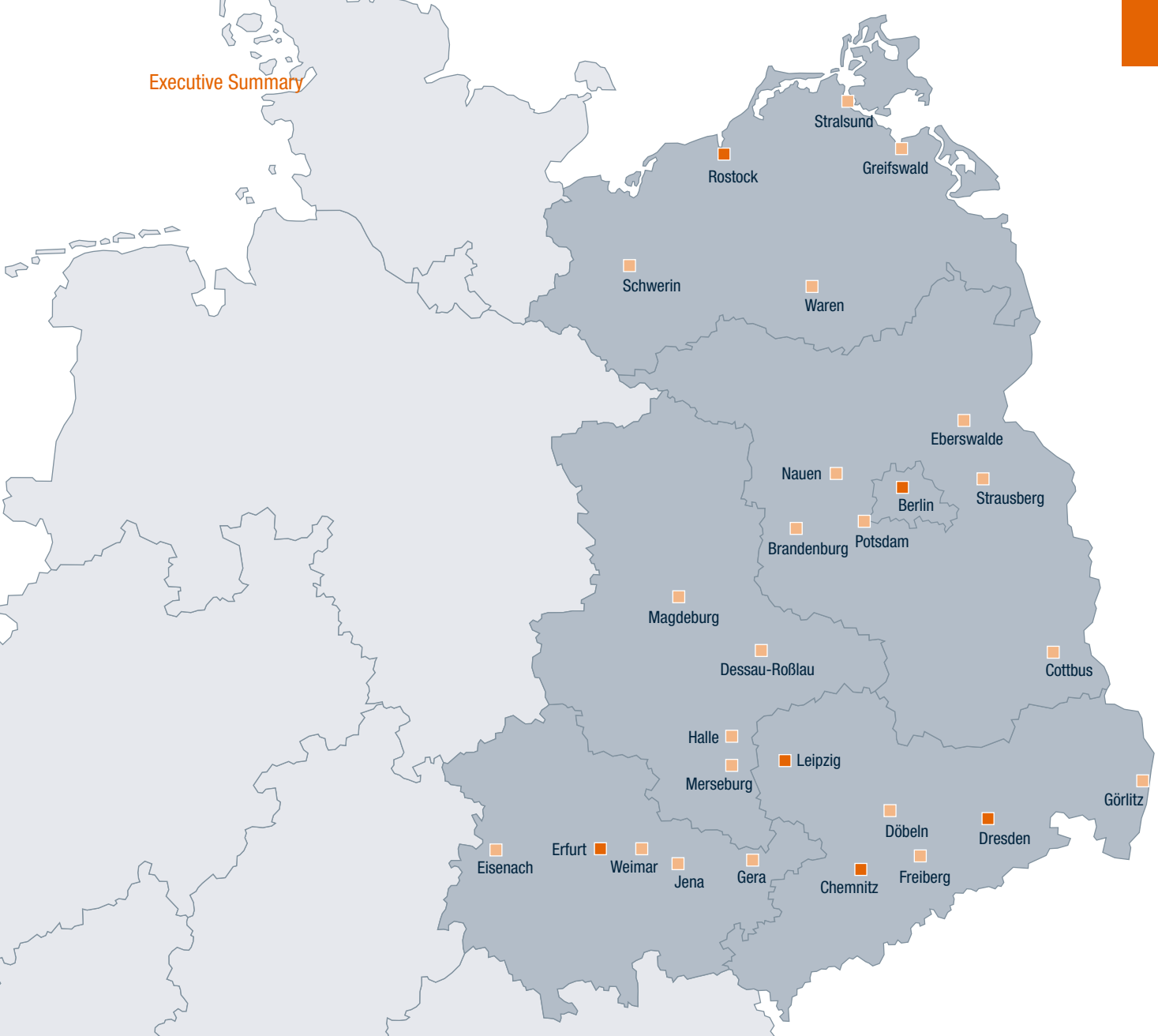
The towns and cities along Germany's Baltic coast are in a league of their own – and this is equally true as far as the relationship between rental and property prices is concerned. In parts of Greifswald, Stralsund and Rostock, house and apartment prices have risen dramatically. In just ten years, the square-metre price in Rostock has surged by an average of almost 60%, and in Greifswald by around 35%. The town's average rent, at EUR 8.00/sqm, is also by far the highest in all of Mecklenburg-West Pomerania. In contrast, tenants in Schwerin, Stralsund, Rostock and Waren an der Müritz pay an average of between EUR 5.00 and just over EUR 6.00/sqm. Rental prices have already clearly reached a peak in Rostock, whereas property prices seem set to rise further.

In the vast majority of Eastern Germany's towns and cities, rental prices have developed largely in parallel to property prices. In the "somewhat weaker" towns and cities, such as Chemnitz, Eisenach, Gera or Dessau-Roßlau, where rental and property prices are more moderate, prices have actually fallen substantially over the last decade – despite their low starting position, prices in some locations have dropped below the EUR 1,000/sqm threshold. Rental prices, however, have gained some ground over the same ten-year period. This is largely due to the fact that relatively few new rental apartments have been built in many locations, while much of the region's older, and often quite dilapidated, housing stock has been demolished. As a result, the double-digit vacancy rates of the 1990s have since been cut to below 10 %.

## Chemnitz and Freiberg are among the new magnet cities

Another interesting phenomenon is the current rate of population growth in places that previously suffered from massive population decline. The reason – on the one hand, refugees from crisis regions in the Middle East have boosted population figures. On the other hand, senior citizens are increasingly abandoning their village homes and moving to the nearest town in search of better infrastructure and housing tailored more to their specific needs. Both of these factors have combined to return towns such as Merseburg and Dessau to positive population growth.





Chemnitz can once again report real population growth. Within a single year (2014-15), the city added 3,560 new residents. A similar development has also been observed in the much smaller town of Freiberg, which has seen its population rise to more than 40,000. Both are now classed as “Schwarmstädte” (literally, “swarm cities”), as are Leipzig and Dresden. This group of towns and cities are defined by their ability to deliver rapid population growth on their own, without having to rely on the lure of a neighbouring major city.

### Medium-sized cities offer yields of between 5% and 8%

A significant portion of our study is also devoted to an analysis of where it still makes sense to invest in Eastern Germany’s housing. The towns, cities and regions we have considered in this report present a differentiated picture. Strongly divergent yields and price-to-rent ratios clearly reflect regional variations in risk (loss of earnings due to population decrease) and potential (population growth and reduced household sizes).

The better prepared a location is for the challenges of the future, the higher the price-to-rent ratios and the lower the yields. This is why Berlin and Potsdam register price-to-rent ratios of between 25 and 30 for multi-family apartment buildings, and why yields are so meagre at between 4.5% and 5%.

In Erfurt, Weimar, Rostock and Jena, price-to-rent ratios tend to average 15 to 16, which results in yields of around 6.5%. And in Eisenach, Cottbus, Schwerin or Stralsund, investors have to budget for average price-to-rent ratios of 12 (8% yields). Double-digit gross yields can be expected in Görlitz, Gera and Nauen.

At the moment, few investors focus on Eastern Germany – with the exception of Berlin. In particular, it is the region’s medium-sized towns and cities that offer enormous development potential, because they are already on a path to further growth, have positive outlooks for the future and still have relatively low rental and property prices. From this point of view, Eastern Germany’s pearls are not just Leipzig, Dresden and Jena, but also towns like Greifswald, Freiberg and Strausberg.



# “New opportunities for Eastern Germany’s medium-sized cities”

***Mr Slupina, Eastern Germany has lost around 14% of its population over the last 25 years. We often have the image of the “depopulated” East. But there are definitely regions that have experienced positive population growth. Do we need to redefine our image of the East?***

We certainly do. You’re absolutely correct when you point out that Eastern Germany’s five states have lost approximately 2 million people since 1990 as a result of outward migration and mortality figures exceeding birth rates. But these developments have not been uniform. Above all, the greatest population losses have been seen in rural areas, away from the region’s major towns and cities – for example, in large sections of Mecklenburg-West Pomerania, and in the Altmark, Oberlausitz or Prignitz regions. And there are no indications that this trend will reverse anytime soon.

***Have all rural regions suffered the biggest losses?***

Famously, there are always exceptions to the rule. In earlier studies we saw that there are a number of very small, fairly isolated places that have bucked the general rural exodus trend and have enjoyed population stability. In many cases, it is the well-established structures and unusually high number of clubs and associations in these villages that make a crucial contribution to such positive, localised developments. Unfortunately, it’s not possible to offer a more detailed explanation. But, in general terms, the further a village is from a sizeable town or city, the more limited its prospects for the future.

***What role does proximity to Berlin play?***

A huge one. The closer a locality is to Berlin, the better its prospects. With established infrastructure and rail or commuter rail lines, communities around the German capital can definitely profit from the growth of Berlin, and from the higher rental and property prices there. But Berlin is not representative of the entire Eastern region. If we put Berlin to one side for a moment, Leipzig and Jena are attracting the greatest numbers of young people. But there are a host of other cities, including Magdeburg, Rostock and Erfurt, that have experienced positive growth over the last few years and have seen their populations expand.

***And what makes these cities attractive to migrants?***

Eastern Germany’s largest cities have also experienced tough times, and their populations declined continuous-

ly over a number of years. Numerous development programmes were launched under the umbrella “Stadtumbau Ost” (“Urban Redevelopment in Eastern Germany”), and were largely successful in reversing the trend. The run-down – but often very attractive – historic centres of numerous cities were refurbished, and the stock of prefabricated housing was either demolished or modernised. There was also a great deal of new housing built. The redevelopment programme even stretched as far as more rural exurbs, where former East German citizens fulfilled their dreams of owning a house with a garden. Whereas the 1990s were an era of outward migration, as people deserted derelict towns and cities, the new millennium saw a flood of people return. And not just returnees, but new migrants, too.

***Even people from Western Germany are moving to the East. Who are they and why are they migrating?***

It’s impossible to say in detail. But in 2013 the first East-West comparison was made that registered a positive population balance in favour of Eastern Germany. The first to make the move were senior citizens over the age of 65. Nowadays, there are also significant numbers of young people and young families moving from Western Germany to one of the region’s larger cities, such as Leipzig or Jena. These are attractive cities to live in, and the cities in Eastern Germany have nothing to be afraid of in comparison to the West. Still, we haven’t yet examined migrants’ specific motives.

***But you have looked at population movements within Eastern Germany itself. Who is moving, and where are they settling?***

We have identified several groups who exhibit different patterns of behaviour. What we call “student migrants” tend to be drawn to larger cities, such as Leipzig, Dresden and Jena. The “job migrants” go wherever they find a suitable job – so mostly also the larger cities. The “family migrants” are really the only group still interested, at least to some extent, in moving to rural communities, where they hope to raise their children in a more tranquil environment beyond the hustle and bustle of a big city. But even this group is more likely to stay in an urban centre today, where they can find work and the infrastructure they need for their children, such as daycare nurseries and schools. One of the most interesting groups is the “retiree migrants”. These are people above the age of 65 who are leaving their villag-



es in growing numbers and moving to urban areas. They tend not to move to the largest cities, preferring instead to make their new homes in small and medium-sized towns, Schmalkalden or Meiningen, for example.

#### **Or Arnstadt, Köthen and Waren an der Müritz?**

If they already live in the vicinity, then yes. This group tends to appreciate familiar surroundings and stays in the region they already know well. In a majority of cases, they move to the next closest town with a population of between 10,000 and 50,000, where they only have to travel short distances to a doctor or shops, and where their basic needs can be met locally; public transport, hospitals and, if possible, barrier-free housing. These medium-sized towns in Eastern Germany can create a host of new opportunities for themselves if they integrate the needs of senior citizens into their planning.

#### **These cities are also attracting younger people ...**

If they have universities or technical colleges, these towns and cities are definitely more popular among young-

er people than ever before. Unfortunately, towns like Schmalkalden, Mittweida or Ilmenau are often little more than a way station for many students. When they reach their mid-20s, their studies behind them, most students turn their backs on these towns and head for the big city, where they find it easier to get their first career opportunities.

**Manuel Slupina**, born in Cologne on 06 December 1979, is a graduate economist and has been working as a researcher at the Berlin Institute for Population and Development since early 2011. He is responsible for the institute's work on population development in Germany's regions. In his studies, he has examined the causes and effects of the growing asymmetric development of populations in attractive major cities and peripheral, sparsely populated regions.

He is the author of the current study, *“Im Osten auf Wandschaft – Wie Umzüge die demografische Landkarte zwischen Rügen und Erzgebirge verändern”* (“**Eastern Germany's population in flux – how population movements are redrawing the demographic map between Rügen and Erzgebirge**”). The study investigates population flows in Eastern Germany's five states. It reveals which municipalities, towns and cities are most attractive for young people, families or senior citizens and provides insights into the varied demographic futures of these Eastern German regions.

The study's conclusions – in addition to the popular cities, Leipzig, Dresden and Jena, there are a number of smaller towns and cities that also boast significant potential for growth. The situation is, however, much more critical for villages that lie off the beaten track. The greater the distance to the nearest town or city, the more limited the prospects for population growth

## Methodology

### Selection of regions and locations

**The regions and locations** included in this report were selected on the basis of two criteria.

As the report's publisher, TAG Immobilien AG has selected the large and medium-sized towns and cities in Eastern Germany where it has an active interest. Where necessary, this data has been supplemented with data compiled by Wüest & Partner in order to present a fuller picture of the economically significant towns and cities in the region.

**Figures for rental and property prices** are based on information contained in the database from IDN Immodaten and have been processed and calculated by Wüest & Partner Germany.

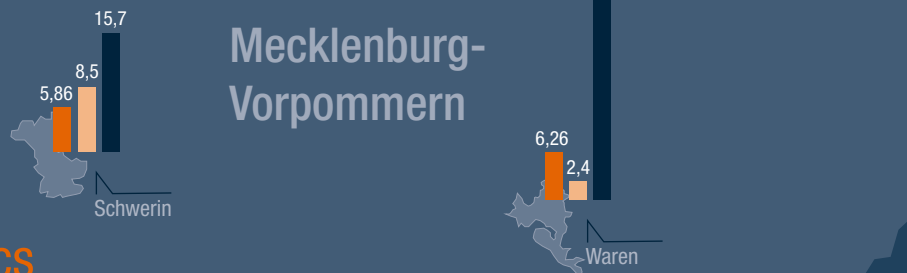
Population figures have been compiled from a number of sources throughout 2015. The figures related to population growth in each location have been taken from data published by Germany's Federal Office of Statistics.

**Household data** has been taken from the BBSR (Federal Institute for Building, Urban Affairs and Spatial Research). It is important to point out that these figures exist only for each administrative district. As a result, district-wide household developments provide only an approximate indication of developments within individual towns or cities. On the whole, the towns and cities have experienced growth that is above district averages.

**Other sources of data** used to produce this report's tables and graphs, and to support the statements made in the report's various chapters, are credited in the list of sources at the end of the report.

# Economic and Demographic Key Data

- Rental prices in EUR/sqm (HY1 2016 median, Wüest & Partner Deutschland)
- Vacancy rate 2014/2015 in % (various sources, \*census 2011)
- Home ownership in % (census 2011)



## Demographics

City	Population 2015	Population development Δ 2012-2014	Households 2016	Household development Δ 2014-2016
Rostock	206,033	0.6% ↻	118,272	-0.1% ↻
Schwerin	93,024	1.0% ↻	52,742	5.7% ↗
Stralsund	58,241	0.3% ↻	31,889	0.2% ↻
Greifswald	56,685*	1.6% ↻	30,180	2.9% ↗
Waren	21,354	-0.2% ↻	10,586	2.0% ↗

\*2014

Sources: State statistical offices and citys' websites; Federal Office of Statistics; BBSR; GfK

## Purchasing Power

City	Household purchasing power 2015 (D = 100)	Household purchasing power Δ 2010-2015	Retail centrality 2016 Index (D = 100)
Rostock	73.0	15.4% ↗	105.0
Schwerin	78.7	14.4% ↗	114.5
Stralsund	73.3	11.3% ↗	98.4
Greifswald	79.9	10.2% ↗	98.6
Waren	85.1	13.7% ↗	150.0

Source: GfK Geomarketing

## Labour Market

City	Unemployment rate 2015	Unemployment rate Δ 2010-2015	Employment subject to social security contributions Δ 2010-2015	Net commuter flow 2015 (inward minus outward commuters)
Rostock	9.9	-21.6% ↓	10.0% ↗	11,017
Schwerin	9.9	-21.5% ↓	4.4% ↻	14,897
Stralsund	13.0	-4.2% ↻	-0.3% ↻	4,654
Greifswald	12.8	-2.7% ↻	10.6% ↗	6,600
Waren	12.7	-11.5% ↓	12.2% ↗	2,610

Source: Federal Employment Agency statistics



# Waterside cities with a sparkling future

Mecklenburg-West Pomerania has more quality housing to offer than “just” Rostock and Schwerin. Waren an der Müritz, Stralsund and especially Greifswald have shown positive development, where rental and housing prices have been increasing for years.

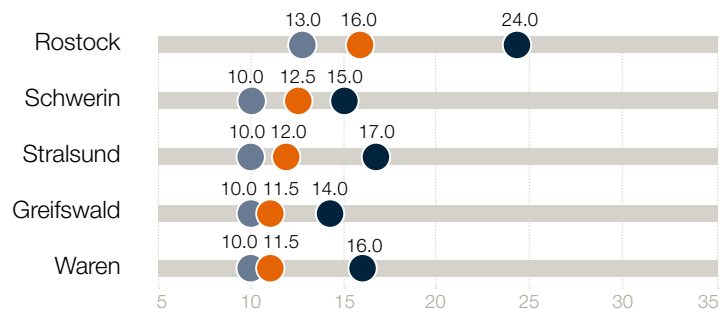
**W**ho would have thought? The most expensive town in Mecklenburg-West Pomerania is ... Greifswald. The historic Hanseatic town on the Baltic Sea with 56,000 residents may soon be subject to rent control, because rental prices have increased so much lately. At an average EUR 8/sqm (mean 2014-16), Greifswald even beats out the heavy-weights Rostock and Schwerin, where rents have only risen to about EUR 6/sqm, comparable with Stralsund. In Waren an der Müritz, rental prices of EUR 5.85/sqm are somewhat more affordable.

**Growth in Greifswald** In HY1 2016 alone, the average rent in Greifswald climbed again – to EUR 8.21/sqm. The old university town has seen prices increase more than 40% within ten years. The reason – the technical college is considered one of the best in Germany, and accordingly, attracts many young people. Between 2008 and 2014, the population grew by 4.7%; every fifth resident is a student. Housing has become scarce – despite more being built here than in other cities in the region. The proportion of new multi-family houses (2008-14) at 19.4% is much higher than in Rostock (12%) or Schwerin (6.6%). The national average is just 2.1 apartments per 1,000 residents over the same period; in Greifswald it was 4.8. Schwerin and Waren an der Müritz were also slightly ahead of the national level at 2.5 and 2.4 apartments per 1,000 residents, respectively.

**Rising prices in Rostock** However, in terms of apartments purchase prices, Rostock tops all other cities in the region. On average, advertised prices (2014-16) stood at EUR 2,357/sqm –

## Multipliers

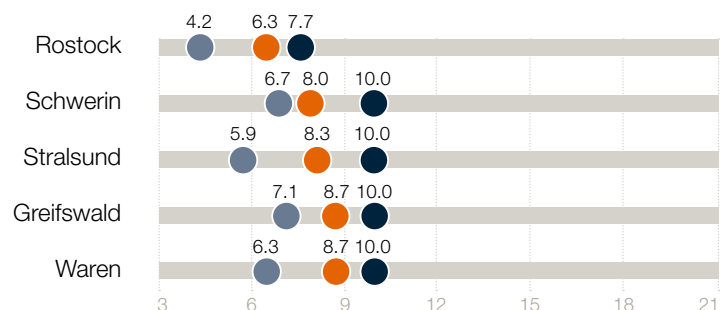
● = minimum ● = average ● = maximum



Source: Property market reports, Wüest & Partner Deutschland

## Gross Yields

in % ● = minimum ● = average ● = maximum



Source: Property market reports, Wüest & Partner Deutschland

## Transaction Market

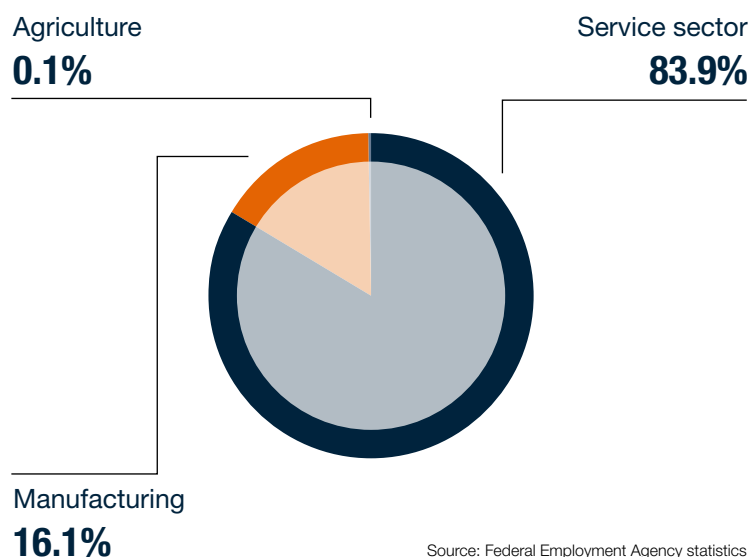
City	Housing 2015 in € millions
Rostock	563
Schwerin	172
Stralsund	60
Greifswald*	400**
Waren	105**

\*2014,  
\*\*data for the entire county

Source: Property market reports

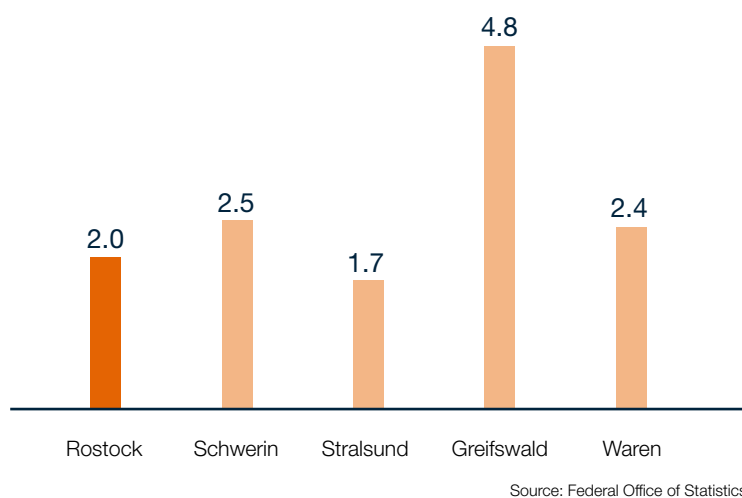
The transaction volume covers developed land, undeveloped land and well as residential property and apartments.

## Economic Structure in Rostock



## Constructions

Construction completion per 1,000 residents Ø 2008-2014 p. a.



Rostock, Old Town

58.7% more than ten years ago. All other cities in this region had square metre prices between EUR 1,400 and 1,500 for this period. The lowest rate of increase was registered in the state capital, Schwerin, at only 5.7%, although the city has always been at the upper price limit. In Greifswald, property prices have risen by an average of almost 35%, and in Stralsund by almost 33%, within the last ten years. Prices in Waren have been rising steadily for ten years, with a total growth rate of about 9%. In HY1 2016, price rises accelerated by 13.1% when compared to the prior year. At EUR 1,646 per square meter, prices in Waren are now higher than in Schwerin (EUR 1,532/sqm).

**Returns of 8% to 9%** In terms of price-to-rent ratios, Rostock has reclaimed its top position with a ratio of 16. Otherwise, investment property in the northeast of the Republic averages between 11.5 and 12.5. Accordingly, gross yields of 8% to 8.7% (peaking at 10%) are similarly homogeneous; in Rostock returns average 6.3%, and peak at 7.7%.

Both in Rostock (2013: 2.1%) and in Greifswald, there are practically no vacancies left; even in Waren, the vacancy rate was below 4%. Schwerin has the most trouble with vacant apartments. But, despite a rate of more than 10% (2011), rental prices have remained stable.

**Outlook:** The quality of life in the “waterside cities” in Mecklenburg-West Pomerania is set to improve, making the cities more attractive for their residents – thanks to tourism and their universities. Despite some excessive examples of rental and property price increases, price-to-rent ratios are well under the level of comparable cities in the West, which makes them interesting from an investor’s point of view.



Stralsund, Philipp-Julius-Weg

## Property Prices

City	Property purchase price EUR/sqm			% change
	2011	2015	H1 2016	Δ 2011–2016
Rostock	1,668	2,408	2,437	46.1 % ↑
Schwerin	1,393	1,462	1,532	10.0 % ↗
Stralsund	1,429	1,512	1,600	11.9 % ↗
Greifswald	1,421	1,593	1,631	14.8 % ↗
Waren	1,357	1,448	1,646	21.3 % ↑

Source: Wüest &amp; Partner Deutschland; median price

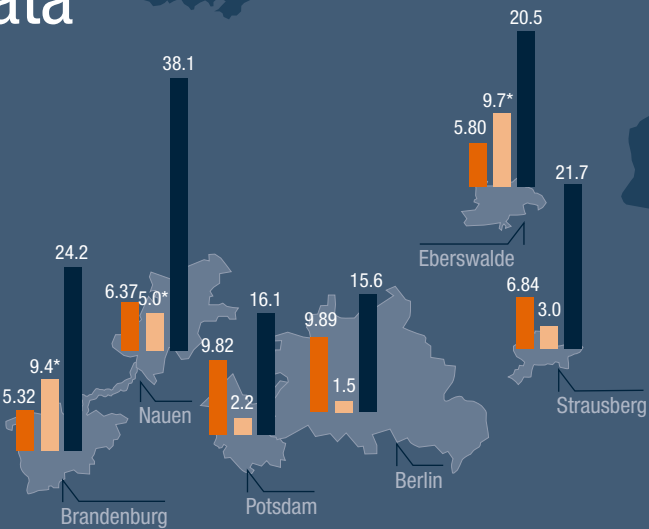
## Rental Prices

City	Apartment rent EUR/sqm/month			% change
	2011	2015	H1 2016	Δ 2011–2016
Rostock	6.15	6.05	5.68	-7.8 % ↓
Schwerin	5.72	5.96	5.86	2.5 % →
Stralsund	6.08	6.19	6.24	2.7 % ↗
Greifswald	6.98	8.00	8.21	17.6 % ↑
Waren	5.18	5.93	6.26	20.7 % ↑

Source: Wüest &amp; Partner Deutschland; median price

# Economic and Demographic Key Data

- Rental prices in EUR/sqm (HY1 2016 median, Wüest & Partner Deutschland)
- Vacancy rate 2014/2015 in % (various sources, \*census 2011)
- Home ownership in % (census 2011)



## Demographics

City	Population 2015	Population development Δ 2012-2014	Households 2016	Household development Δ 2014-2016
Berlin	3,520,031	2.8% ↗	1,978,148	2.6% ↗
Potsdam	166,825	2.9% ↗	92,548	4.2% ↗
Brandenburg	71,475	-0.2% ↘	38,181	0.2% ↘
Eberswalde	39,277	-0.2% ↘	21,171	1.6% ↗
Strausberg	26,099	1.4% ↗	13,574	3.4% ↗
Nauen	16,886	1.6% ↗	8,098	3.3% ↗

Sources: State statistical offices and cities' websites; Federal Office of Statistics; BBSR; GfK

## Purchasing Power

City	Household purchasing power 2015 (D = 100)	Household purchasing power Δ 2010-2015	Retail centrality 2016 Index (D = 100)
Berlin	78.8	17.1% ↗	106.1
Potsdam	86.2	13.2% ↗	92.6
Brandenburg	77.7	8.4% ↗	116.9
Eberswalde	70.7	8.3% ↗	104.8
Strausberg	82.6	5.3% ↗	127.9
Nauen	87.9	10.0% ↗	74.3

Source: GfK Geomarketing

## Labour Market

City	Unemployment rate 2015	Unemployment rate Δ 2010-2015	Employment subject to social security contributions Δ 2010-2015	Net commuter flow 2015 (inward minus outward commuters)
Berlin	10.1%	-15.7% ↓	16.7% ↗	111,074
Potsdam	6.9%	-8.6% ↘	7.3% ↗	15,428
Brandenburg	11.4%	-14.6% ↓	7.7% ↗	2,366
Eberswalde	7.5%	-20.4% ↓	0.7% ↘	2,168
Strausberg	8.5%	-21.8% ↓	16.5% ↗	-948
Nauen	7.4%	-7.9% ↘	11.6% ↗	-320

Source: Federal Employment Agency statistics

# The secret stars in the second row

Living space in prospering Berlin remains a scarce and thereby valuable commodity. The situation is similar in neighbouring Potsdam. This is why peripheral cities in Brandenburg are coming into focus for tenants and buyers. The better the transportation connection into the capital, the more attractive the location.

**B**erlin is in. It has long lost its “poor, but sexy” image. Berlin’s economy is growing by an average of 2.1% per year, which places it above the national average (1.4%). In 2015, (real) gross domestic product increased by 3% and pushed Berlin to second place in the ranking of federal states – right behind Baden-Württemberg. The number of employees subject to social security contributions is also continually growing. In the past four years, 14% more Berliners were permanently employed than in 2010. This positive development is also reflected in another value: population growth.

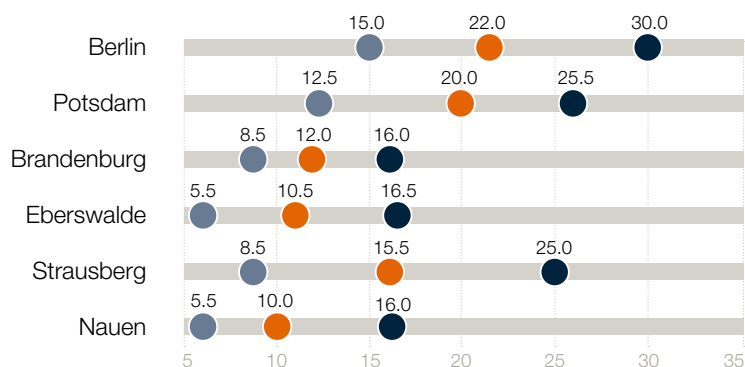
Today, 3.5 million people live in the capital, in 2030 it is expected to rise to about 3.7 million. This has consequences for the real estate market. Housing has become a valuable commodity – scarce and expensive. In the last ten years, rental prices have increased by 55 %. The average rent is EUR 9.10 (2014-16); between 2004 and 2006 it was only EUR 5.87/sqm.

## Rising rents and prices in Berlin and Potsdam

If an average of around 4,000 newbuild apartments are added each year, there will still be a lack of affordable apartments. Anyone who takes advantage of low interest rates to buy an apartment will have to dig deep into their pockets. The average cost per square metre in Berlin is EUR 3.000 and higher, that is more than 75% more than in 2004, which makes the Spree metropolis even more expensive than neighbouring Potsdam. The state capital has long been the most expensive city in Berlin-Brandenburg’s metropolitan region. Ten years ago, people in Potsdam paid an average of more than EUR 7.00/sqm for rent, meanwhile they have to pay EUR 9.82/sqm – an increase of more than a third. Property has also be-

## Multipliers

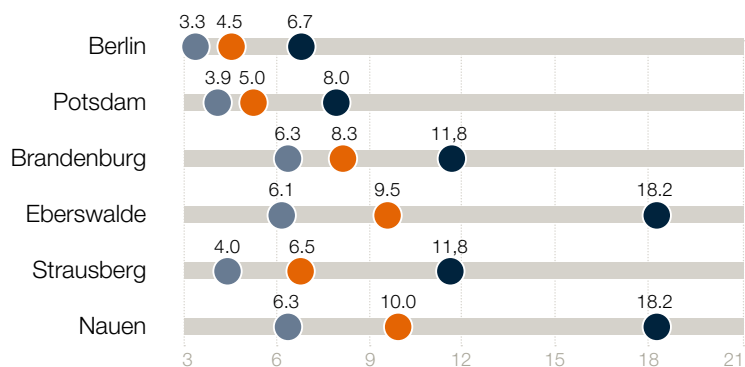
● = minimum ● = average ● = maximum



Source: Property market reports, Wüest & Partner Deutschland

## Gross Yields

in % ● = minimum ● = average ● = maximum



Source: Property market reports, Wüest & Partner Deutschland

## Transaction Market

City	Housing 2015 in € millions
Berlin*	13,783
Potsdam	979
Brandenburg*	211
Eberswalde	279
Strausberg	364
Nauen	53

\*2014

Source: Property market reports

The transaction volume covers developed land, undeveloped land and well as residential property and apartments.

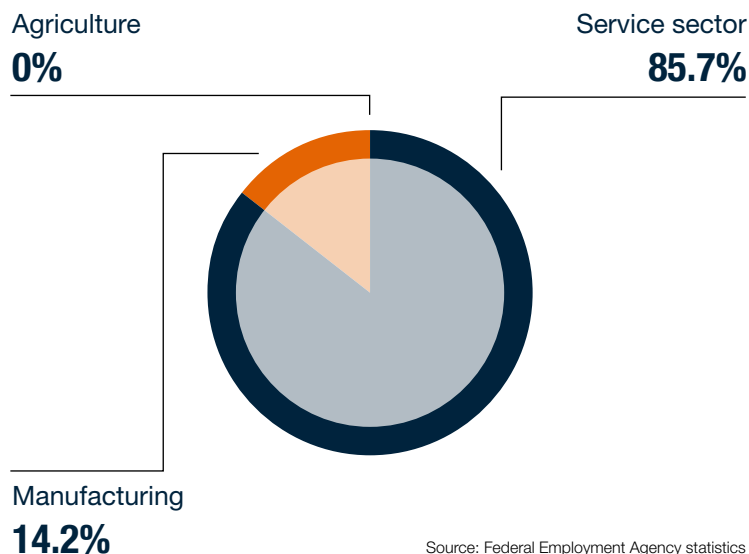
**Berlin:** volume relates to apartment houses (without commercial) and space for apartment construction.

**Potsdam:** volume relates to land for apartment construction.

**Nauen:** volume relates to the whole municipal district.

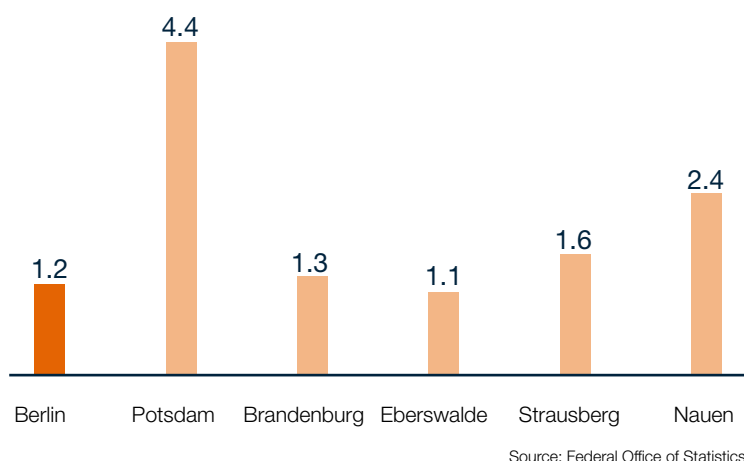


## Economic Structure in Berlin



## Constructions

Construction completion per 1,000 residents Ø 2008-2014 p. a.



Pedestrian zone in Potsdam

come almost 33% more expensive. On average, EUR 2,780/sqm (2014-16) is to be expected. Together with Berlin, Potsdam also has the highest price-to-rent ratio for multi-family housing, which reaches a peak of 25.5 (Berlin: 30).

**Returns between 8% to 10%** What may appear as a logical consequence of ever increasing demand for housing in Berlin and Potsdam – more than 80% of the entire population of the metropolitan regions' core live in these two cities – is, at first glance, surprising for a city such as Strausberg with its 26,000 residents. Investment properties here are traded at up to 25 times annual net rental income; on average at 15 times net rental income – more than in any other city examined in the state of Brandenburg. In Eberswalde, Brandenburg an der Havel and Nauen, price-to-rent ratios of up to 16/16.5 have been reported; the average gross yield rate is between 8% and 10%. Strausberg comes in at 6.5 %, Potsdam at 5.0% and Berlin at just 4.5%. Since higher yields are always accompanied by higher risk, it is worth considering the fundamental data of the city in question. Unemployment rates have declined by double-digits almost everywhere; in Eberswalde by 20% (2010-15) to 7.5%, in Strausberg by almost 22% to 8.5% and in Brandenburg by 15% to 11.4%. Last year, the purchasing power per household in Nauen, with an index score of 87.9 (Germany = 100), was higher than in Potsdam (86.2), and almost everywhere, the number of households will continue to grow until 2025 – the strongest growth is in Eberswalde at 6.4%. For Berlin (3.0%), the value was the lowest. The reason – in Berlin, more than half of all inhabitants already live in single households, so the effect of a growth in single-person households, which has yet to play out in Brandenburg's cities, will probably not be as high.

The positive development in Brandenburg's cities is partially due to the generally favourable economic situation, but also due to its relative proximity and easy access to the metropolis, Berlin.



Brandenburg an der Havel, Bergstraße

## Property Prices

City	Property purchase price EUR/sqm			% change
	2011	2015	H1 2016	Δ 2011–2016
Berlin	1,795	3,012	3,217	79.2% ↑
Potsdam	2,150	2,852	2,978	38.5% ↑
Brandenburg	1,115	1,159	1,280	14.8% ↗
Eberswalde	1,031	1,001	1,023	-0.8% →
Strausberg	1,325	1,697	1,773	33.8% ↑
Nauen	1,104	1,271	1,177	6.6% ↗

Source: Wüest &amp; Partner Deutschland; median prices

## Rental Prices

City	Apartment rent EUR/sqm/month			% change
	2011	2015	H1 2016	Δ 2011–2016
Berlin	6.65	9.18	9.89	48.7% ↑
Potsdam	7.77	9.19	9.82	26.3% ↑
Brandenburg	4.75	5.19	5.32	12.0% ↑
Eberswalde	4.76	5.84	5.80	21.8% ↑
Strausberg	5.26	6.03	6.84	30.1% ↑
Nauen	4.97	6.08	6.37	28.2% ↑

Source: Wüest &amp; Partner Deutschland; median prices





### Strausberg, Parkstraße

This is why ever more Berliners are moving out of the expensive city and into the more affordable peripherals. This benefits a town such as Strausberg, which is only 54 kilometres away, and has had a commuter rail connection since 1948. Berlin's main train station can be reached in 45 minutes. About 12,300 commuters – almost half of Strausberg's population – use this connection every day.

**Connection pays off** Also, roughly 17,000 inhabitants of Nauen, to the northwest of Potsdam and only 18 kilometres from Berlin's border, have a rail connection. The regional train has been running at 30 minute intervals – since December 2015, even to Berlin's Südkreuz. Today, 4,900 people commute to the capital every day. Therefore, Nauen has expanded park-and-ride facilities at its train station. Since 2003, the population has continued to grow and is expected to grow 1.8% by 2030. This has led to current discussions about expanding the rail network, which would allow more frequent trains. There is even talk of building its own commuter rail connection. From Eberswalde, it takes less than 30 minutes to reach Berlin-Gesundbrunnen, a fact that has attracted new residents. In 2015, 355 Berliners moved to the town, where its technical colleges offer a choice of 17 sub-

jects. Last year, 336 big-city dwellers moved to urban Brandenburg with its restaurants, cafés, its own theatre and employment growth of more than 5% (2011-15). The town has invested in settling new residents by creating places in nurseries and day care centres.

Whether Brandenburg, Strausberg, Nauen or Eberswalde – all the towns surrounding Berlin enjoy good prospects for the future. This is also noticeable in the currently, very moderate rental price levels – despite some double-digit growth in the ten-year comparison. In Nauen, rental prices in this period jumped by almost 31%. And in Strausberg, where almost 10% of the housing stock has been built since 2000, by 21%. Yet, tenants still pay an average of only between EUR 5.16 and 6.10/sqm.

**Outlook:** Berlin and Potsdam are the undisputed stars in the real estate constellation of the metropolitan region. As living costs have become much more expensive in these areas, ever more people are moving to the near and far outlying areas. This fact also makes such “secondary” towns, such as Strausberg, Nauen or Eberswalde attractive places to live. Because Berlin continues to grow, the growth chances for smaller towns and surrounding communities will also increase. ■

# Medium-sized cities – the urban and rural migration winners

The most interesting aspects of many statistics are only revealed at a second glance. This is especially true when it comes to the latest data on population developments in Germany's cities and regions, data that has been the subject of a great deal of debate in the media and public sphere. And yet it is only those who make time for a second glance, analysing these statistics in real detail, who end up with a truly accurate picture – one that enables them to draw reliable conclusions in relation to housing market developments.

In the case of areas with particularly over-heated housing markets, where demand for housing is disproportionately high, this largely means understanding the evolution of demand, and especially identifying which groups are the major drivers of increased housing demand. This is exactly the point at which a range of current trends overlap, and it would be easy to develop a mistaken impression of developments and thereby fall into the trap of drawing incorrect conclusions. Without a doubt, Berlin has been growing by the population of a small-to-medium-sized city for more than a decade – every single year. And the situation is little different in areas of dynamic economic growth, such as Munich, Hamburg and other large urban conglomerations. And yet, the causes of population growth have changed fundamentally over the last few years. The German Institute of Economic Research (DIW) recently reported that the only reason the country's Top Seven cities are able to report positive net migration figures is because of the influx of foreign migrants. If the impact of international migration is stripped out of the figures, the effect is sobering. Since 2014, more people have left these major cities than have arrived. Of course, this naturally raises the question, "Where have all these people gone?" The answer may be banal: "To the countryside!"

The greatest surprise will come to those who have spent the last few years observing a trend of urban migration, i.e. population movements to urban districts within large cities. This is still a topic of considerable interest to the mainstream media today. Wouldn't it be more appropriate to stop describing these movements as a rural exodus and refer to a new wave of urban flight? For observers of Germany's housing markets, from whichever perspective, this question is somewhat more nuanced. After all, the regions around our major cities are not homogenous

urban centres. In actual fact, these areas offer a varied range of differentiated communities. If you take a closer look at the statistics, it is clear that it is primarily the small and medium-sized towns and cities that are the biggest beneficiaries of the latest internal migration trends. Although this applies in particular to the regions around the Top Seven cities, it is in no way limited to these regions. In Eastern Germany's states, it has become clear that medium-sized towns and cities are reaping significant gains from the rural exodus. As a result, cities such as Dresden, Rostock or Leipzig are again registering positive population growth, and places like Halle/Saale, Weimar or Greifswald are now reporting net migration surpluses. Especially in regions of a predominately rural character, i.e. those that have suffered most from population shrink-

**"Immigration trend from overpriced housing markets causes growth of medium-sized cities"**

age, which is by no means limited to sections of Eastern Germany, medium-sized towns and cities frequently benefit from their role as centres of supply to wider regions, whose infrastructure is often as thinned-out as their populations.

All of this is supplemented by a further trend, which has come to bene-

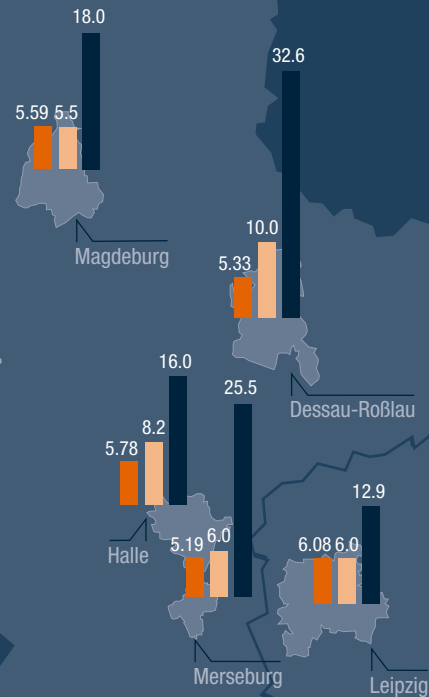
fit a number of towns in Eastern Germany – urban flight from the over-priced housing markets in the region's biggest cities. This represents a second source of inward migration, at least for medium-sized towns situated in the catchment areas of larger cities where housing is in short supply, and should deliver medium-term population growth that may be moderate, but will also be stable. In Nauen and Strausberg a noticeable upswing in migration has delivered significant growth in what were two somewhat smaller communities. With the data we have at our disposal today, it is impossible to predict whether this trend will continue in the long term. But investors should certainly keep an interested eye on these developments.



**Karsten Jungk** Managing Director of Wüest & Partner Deutschland since 2009 and Partner since 2015. A business studies graduate and publicly appointed appraiser, he is responsible for the company's property appraisal, transaction consultancy and strategic portfolio advisory divisions, as well as for market and location analysis.

# Economic and Demographic Key Data

- Rental prices in EUR/sqm (HY1 2016 median, Wüest & Partner Deutschland)
- Vacancy rate 2014/2015 in % (various sources, \*census 2011)
- Home ownership in % (census 2011)



## Demographics

City	Population 2015	Population development Δ 2012-2014	Households 2016	Household development Δ 2014-2016
Leipzig	552,878	4.5% ↑	317,413	5.9% ↑
Halle	235,757	0.4% →	131,936	6.2% ↑
Magdeburg	235,522	1.0% →	130,602	2.0% →
Dessau-Roßlau	82,927	-1.8% ↓	44,422	5.3% ↑
Merseburg	36,642	-0.6% →	17,332	-0.1% →

Sources: State statistical offices and cities' websites; Federal Office of Statistics; BBSR; GfK

## Purchasing Power

City	Household purchasing power 2015 (D = 100)	Household purchasing power Δ 2010-2015	Retail centrality 2016 Index (D = 100)
Leipzig	73.8	18.2% ↑	105.2
Halle	74.0	10.9% ↑	101.2
Magdeburg	77.7	16.4% ↑	115.1
Dessau-Roßlau	80.2	14.4% ↑	112.7
Merseburg	81.7	17.4% ↑	134.9

Source: GfK Geomarketing

## Labour Market

City	Unemployment rate 2015	Unemployment rate Δ 2010-2015	Employment subject to social security contributions Δ 2010-2015	Net commuter flow 2015 (inward minus outward commuters)
Leipzig	8.8	-24.0% ↓	17.9% ↑	38,045
Halle	10.8	-12.7% ↓	1.8% →	11,641
Magdeburg	10.8	-9.2% ↓	2.5% →	18,199
Dessau-Roßlau	10.3	-19.9% ↓	-1.2% →	3,232
Merseburg	8.8	-12.4% ↓	0.3% →	1,477

Source: Federal Employment Agency statistics



# “Demographic stars” next to “average performers”

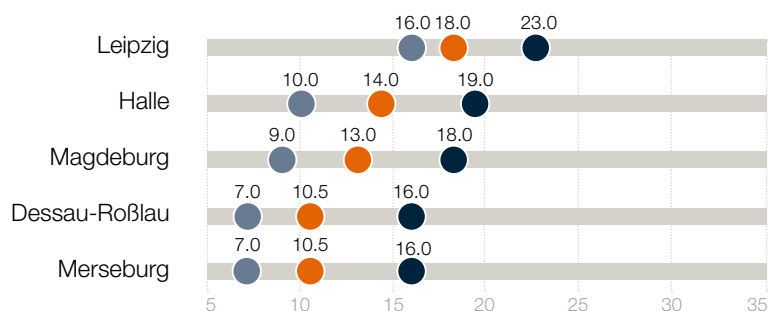
Development in Leipzig is pulling past all other cities in the region. Magdeburg and Halle are also doing well in attracting more residents. Currently, Dessau-Roßlau and Merseburg are also drawing in more people.

Saxony is Germany's favourite place to retire. Nowhere else has more senior citizens in relation to the total population. Seven of every 100 residents in the free state have celebrated their 80th birthday. In Leipzig, it is just the opposite. Saxony's largest city is undergoing an ongoing rejuvenation. Since 2011, the number of 6 to 15-year-olds has increased by almost 54 %. On the one hand, this is due to the many newcomers, but this can also be traced to increasing birth rates. This is why Leipzig is considered to be the “number one magnet city”. Of all the cities in the region, it has experienced the most positive population growth and is expected to grow by another 8.8% by 2030. In particular, young people are attracted by the university city's urban flair – at moderate living costs. Although the average rent has risen by almost 13% in a ten-year comparison, it is still well below the level of large Western German cities, at an average of EUR 5.60/sqm.

**Different rent and price development** In Saxony-Anhalt (Halle, Magdeburg, Dessau-Roßlau, Merseburg), a similar rent level is evident with EUR 5.05 to 5.61/sqm, whereas Magdeburg trails just behind Leipzig, with the second highest rental increases over the last ten years, at more than 14 %. The average square metre price for apartments (2014-16) in the state capital of Saxony-Anhalt is also at the same level as Halle (EUR 1,302/sqm) and Leipzig (EUR 1,486/sqm). From 2014 to 2016, prices in Magdeburg reached EUR 1,209/sqm; however, in HY1 of this year, advertised prices had risen by 13% (EUR 1,369/sqm). In a ten-year comparison, Magdeburg's property increased in price by 17.4%, even beat-

## Multipliers

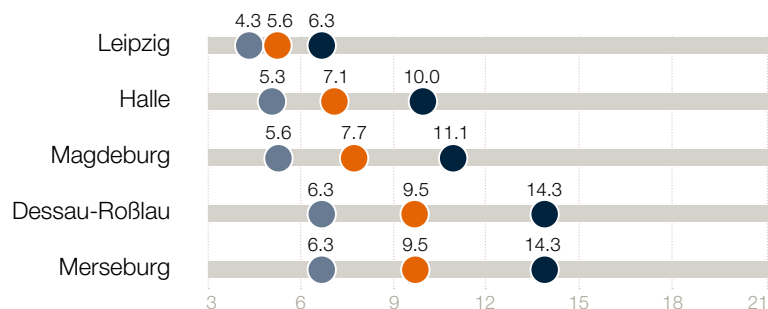
● = minimum ● = average ● = maximum



Source: Property market reports, Wüest & Partner Deutschland

## Gross Yields

in % ● = minimum ● = average ● = maximum



Source: Property market reports

## Transaction Market

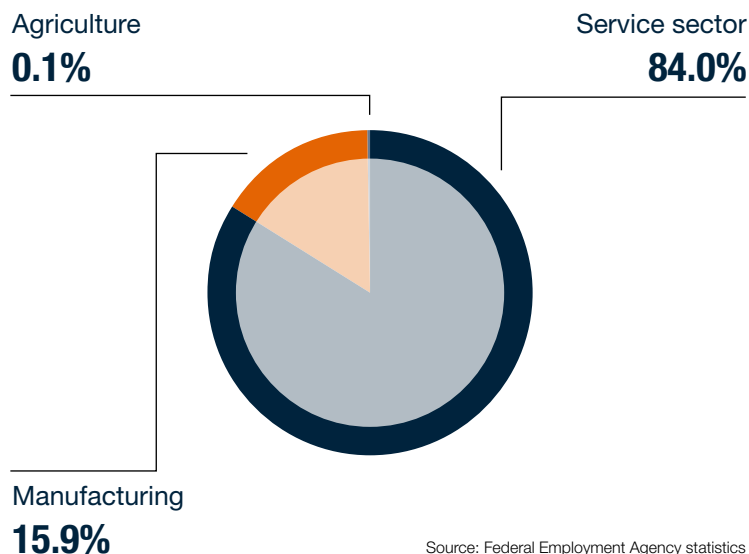
City	Housing 2015 in € millions
Leipzig	2,822
Halle*	352
Magdeburg*	358
Dessau-Roßlau*	87
Merseburg*	169

\*2014

Source: Property market reports

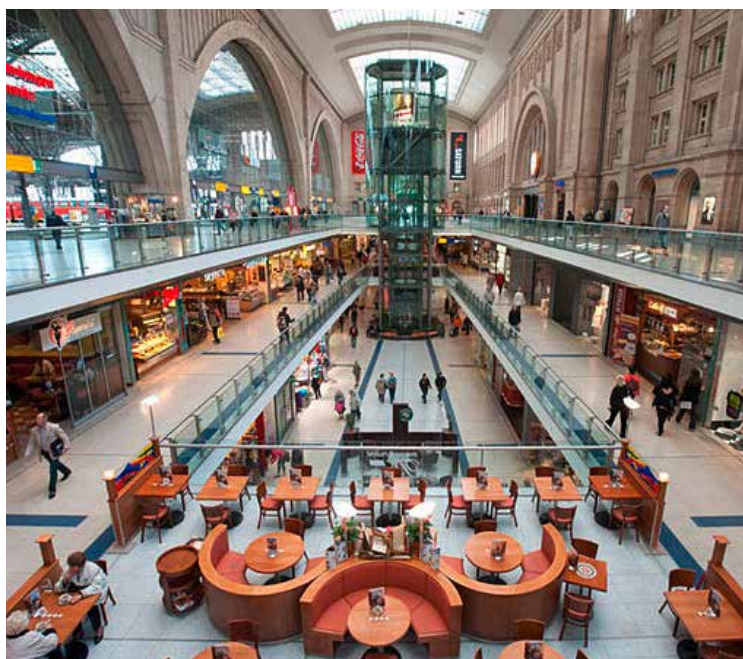
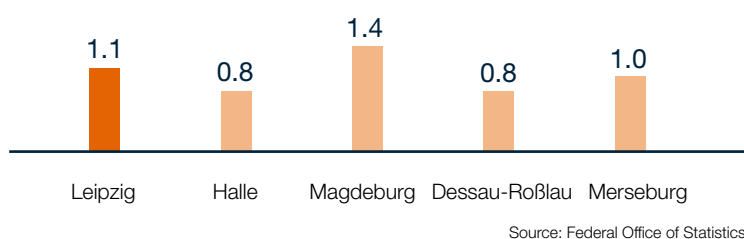
The transaction volume covers developed land, undeveloped land and well as residential property and apartments.  
**Merseburg:** relates to the Saalekreis administrative district

## Economic Structure in Leipzig



## Constructions

Completed construction per 1,000 population Ø 2008-2014 p. a.



Leipzig, Main Railway Station

ing out Leipzig (16.9%); however, Halle remained in pole position in this ranking with a rise of almost 22 %.

During this time, Dessau-Roßlau (-23.5%) and Merseburg (-18%) had to accept considerable double-digit price cuts. Currently, prices here are only EUR 783/sqm (mean 2014-16) (Dessau-Roßlau) and EUR 960/sqm (Merseburg) – but, at least in Merseburg advertised prices have risen to EUR 1,034/sqm in HY1 2016. Apparently the current trend of building, especially expensive apartments, in the inner city is having an impact.

The different levels of development in the five cities correspond to the price-to-rent ratios at which multi-family homes are traded. The cheapest are found in Merseburg and Dessau-Roßlau, where they average 10.5; the most expensive is in booming Leipzig at a ratio of 18, and the midfield is covered by Halle at 14 and Magdeburg at 13.

**Returns of 5% to 10 %** Due to its stable population and ongoing economic growth, neighbouring Halle and Magdeburg, in addition to Leipzig, have become an investment target for institutional investors, who purchase entire property packages – with corresponding effects. In Magdeburg, the strong demand has pushed gross initial yields (2015) at the top end of the market down by more than 100 basis points. Nevertheless, yields averaging 7.7% (Halle: 7.1%) are still far above the level of returns achievable in comparably large Western German cities. In popular Leipzig, average yields of 5.6% are still realistic. In Merseburg and Dessau-Roßlau, the average yield of 9.5% reflects the higher investment risk, which corresponds to the negative population forecast. In the wake of population growth, Merseburg and Dessau, in particular, are currently enjoying an upswing. Many older people, particularly from the surrounding areas, are moving to the larger towns, because there is housing that better suits their needs — add to that the growing number of migrants, which creates

further demand. In Merseburg, the vacancy rate has meanwhile sunk to 9% (2001: 22%); and Dessau-Roßlau has gained residents for the first time since reunification.

**Outlook:** Leipzig is the current demographic winner. Magdeburg and Halle could develop in a similar fashion, which would lead to increasing rental and housing prices in all three cities. In the medium term, Merseburg and Dessau-Roßlau both score highly due to an influx of senior citizens from the surrounding areas and the growing number of foreign citizens. Both of these factors will have positive effects on new construction projects and existing housing stock.



■ Dessau, Elbpavillon

## Property Prices

City	Property purchase price EUR/sqm			% change
	2011	2015	H1 2016	Δ 2011–2016
Leipzig	1,187	1,507	1,622	36.7% ↑
Halle	1,158	1,250	1,385	19.6% ↑
Magdeburg	1,078	1,161	1,369	26.9% ↑
Dessau-Roßlau	905	733	730	-19.4% ↓
Merseburg	788	920	1,034	31.2% ↑

Source: Wüest & Partner Deutschland; median price

## Rental Prices

City	Apartment rent EUR/sqm/month			% change
	2011	2015	H1 2016	Δ 2011–2016
Leipzig	5.00	5.77	6.08	21.6% ↑
Halle	5.21	5.66	5.78	11.1% ↑
Magdeburg	5.00	5.50	5.59	11.8% ↑
Dessau-Roßlau	5.00	5.37	5.33	6.7% ↑
Merseburg	5.00	5.05	5.19	3.8% ↑

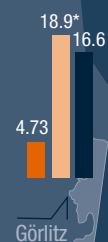
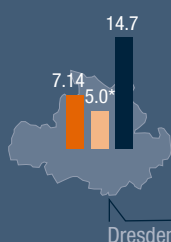
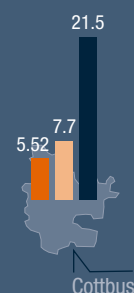
Source: Wüest & Partner Deutschland; median price

# Economic and Demographic Key Data

- Rental prices in EUR/sqm (HY1 2016 median, Wüest & Partner Deutschland)
- Vacancy rate 2014/2015 in % (various sources, \*census 2011)
- Home ownership in % (census 2011)

Brandenburg

Saxony



## Demographics

City	Population 2015	Population development Δ 2012-2014	Households 2016	Household development Δ 2014-2016
Dresden	538,678	2.1% ↗	297,159	2.4% ↗
Cottbus	99,489	-0.4% →	58,046	0.0% →
Görlitz	54,382	0.1% ↗	29,634	1.4% ↗

Sources: State statistical offices and cities' websites; Federal Office of Statistics; BBSR; GfK

## Purchasing Power

City	Household purchasing power 2015 (D = 100)	Household purchasing power Δ 2010-2015	Retail centrality 2016 Index (D = 100)
Dresden	81.2	14.6% ↗	110.9
Cottbus	73.5	11.4% ↗	132.3
Görlitz	71.6	14.6% ↗	122.6

Source: GfK Geomarketing

## Labour Market

City	Unemployment rate 2015	Unemployment rate Δ 2010-2015	Employment subject to social security contributions Δ 2010-2015	Net commuter flow 2015 (inward minus outward commuters)
Dresden	7.4%	-24.1% ↓	10.6% ↗	37,483
Cottbus	9.7%	-24.1% ↓	-3.5% ↘	9,064
Görlitz	11.0%	-13.6% ↓	10.3% ↗	4,431

Source: Federal Employment Agency statistics



# Better than in the West

Dresden, Cottbus and Görlitz are developing in very different ways. What they do have in common continues to be low rental prices – despite price increases. Even in the Saxonian capital, you can still find what has long been missing in Western German metropolises: affordable newbuild apartments.

**D**resden is among the golden boys of Eastern Germany's major cities. The economy is flourishing, the population is growing, and many tourists are coming. Today, the Florence on the Elbe is home to almost 550,000 residents. It is no wonder that housing is becoming ever more expensive. Looking back ten years, prices for apartments have climbed by more than 48% (Cottbus: + 12%; Görlitz: + 2.8%), multi-family homes sell for up to 23 times annual net rental income (Cottbus: 16; Görlitz: 10); gross yields are at a maximum of 6.3% (Cottbus: 11.8%; Görlitz: 14.3%). And the average rental price rose by 26% during this time (Cottbus: + 6.5%; Görlitz: + 8.6%).

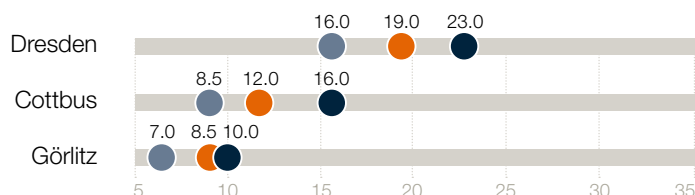
When compared to large Western German cities, real rents are still quite low. The average rental price in Dresden is EUR 6.98/sqm (2014-16). In Cottbus, it is EUR 5.47/sqm and in Görlitz EUR 4.56/sqm. However, the advertised rents in this year's first half-year were partly higher than in 2015: In Görlitz rents rose by 3.2% to EUR 4.73/sqm, in Dresden by 1.2% to EUR 7.14/sqm.

**Fourth highest rates in Dresden** The average price for apartments in the Saxonian capital is EUR 2,149/sqm (2014-16) – the fourth highest value in Eastern Germany, behind Berlin, Potsdam and Rostock. In Cottbus the price is EUR 1,334/sqm and in Görlitz EUR 638/sqm. However in HY1 2016 a substantial price increase of more than 20% to EUR 762/sqm was recorded.

A survey by the real estate service company Dr. Lübke & Kelber of 18 Eastern German cities awarded Dresden second place in its current risk/return ranking – directly behind Potsdam.

## Multipliers

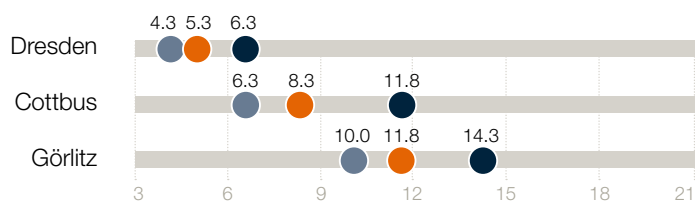
● = minimum ● = average ● = maximum



Source: Property market reports, Wüest & Partner Deutschland

## Gross Yields

in % ● = minimum ● = average ● = maximum



Source: Property market reports, Wüest & Partner Deutschland

## Transaction Market

City	Housing 2015 in € millions
Dresden	1,955
Cottbus	121
Görlitz*	154

\*2014

Source: Property market reports

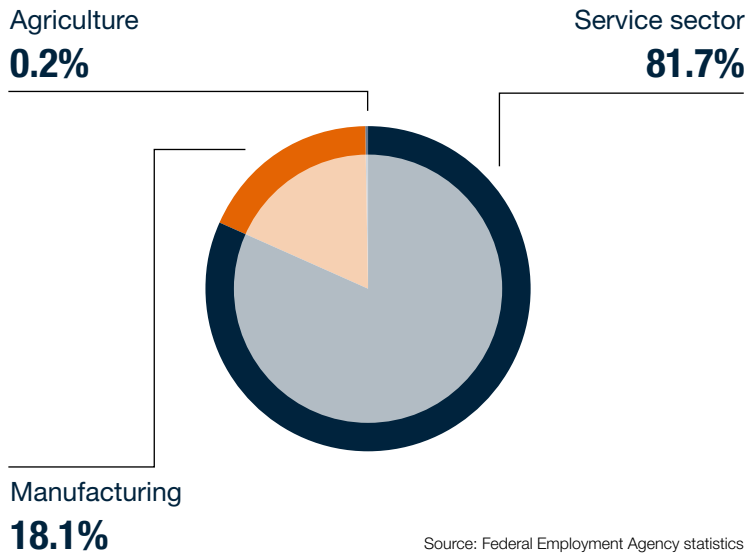
The transaction volume covers developed land, undeveloped land and well as residential property and apartments.



Cottbus, Old Market

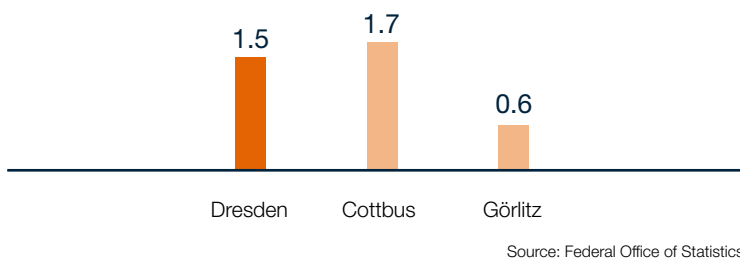


## Economic Structure in Dresden



## Constructions

Completed construction per 1,000 population Ø 2008-2014 p. a.



Dresden, view across the Elbe to the baroque Old Town

Their opinion – Purchasing a multi-family house in Dresden is a highly lucrative financial investment – due to the positive socio-economic development of current rental and purchasing prices as well as the ongoing demand for housing.

**Population decrease stopped** And how does it look in Görlitz and in south Brandenburg's Cottbus? In Görlitz, vacancies still dominated in 2011 (almost 19 %), which is explained by the low rate of housing construction of only 30 residential units per year. However, after reunification, many of the historic building structures were extensively renovated. This jewel on the Polish border survived the war with little damage, so that the inner city to-day shines with architectural highlights from various eras. This is yet another reason why Western German senior citizens have chosen to retire in this city. The motto is: live well and cheaper than in the West, while having more for your retirement. Meanwhile new citizens are coming from the other side of the Neiße, because affordable living space is also becoming scarce in Poland, but it is still widely available in Görlitz. Accordingly there are signs that the trend is changing. Since 2012, Görlitz's population is no longer shrinking, but has stabilised at about 54,400. People are taking advantage of the positive impact of new residents and providing offers for the new target groups.

The demographic decline in Cottbus has also come to a stop. From 2012 to 2014, there was a total loss of only 0.4%. In light of the existing vacancy rate of about 5% (2011), few new projects were developed. The increasing influx will also feed demand here. The job market and retail sector are showing positive signs. In the last five years, the unemployment rate in Cottbus sank by 24%, dipping below 10% (9.7%) for the very first time. Every day, about 9,000 more employees commute into Cottbus from the surrounding areas than travel out of

the city. And the retail sector, with a centrality rating of 132, attracts many consumers from the surrounding communities than few other cities of this size.

Private investors see Cottbus' potential and want to develop up to 1,000 new apartments with an estimated project volume of EUR 100 million in the coming years. Vacant lots in the inner city are to be filled, old buildings will be demolished and multi-family houses will be built on vacant lots – creating new housing for families and employees at the Technical University.

**Outlook:** In every way, Dresden is among the biggest post-reunification winners. The metropolis on the Elbe is looking forward to a bright future, which will have a positive effect on the local real estate market. A place where more people are expected needs more living space. Görlitz has set the course for positive, demographic growth. And thanks to the increasing number of new residents, Cottbus is again closing in on a population of 100,000, which will also have a positive effect on the real estate market. ■



Görlitz, Biesnitzer Straße

## Property Prices

City	Property purchase price EUR/sqm			% change
	2011	2015	HY1 2016	Δ 2011–2016
Dresden	1,532	2,165	2,228	45.4% ↑
Cottbus	1,111	1,254	1,326	19.4% ↑
Görlitz	566	596	762	34.5% ↑

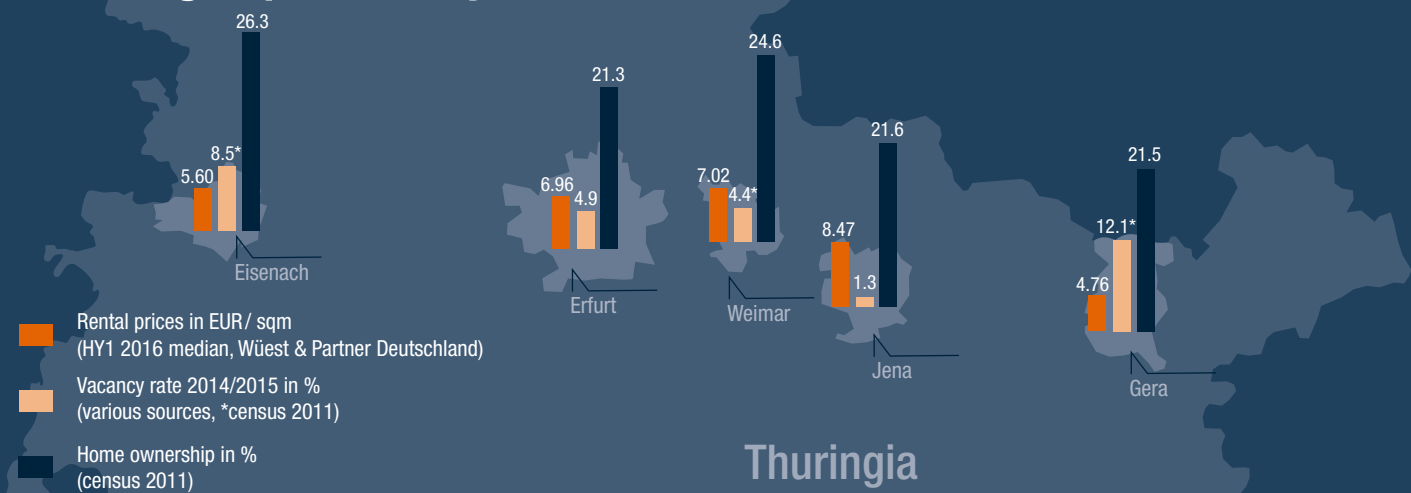
Source: Wüest & Partner Deutschland; Medianpreise

## Rental Prices

City	Apartment rent EUR/sqm/month			% change
	2011	2015	HY1 2016	Δ 2011–2016
Dresden	5.95	7.04	7.14	20.1% ↑
Cottbus	4.93	5.53	5.52	12.0% ↑
Görlitz	4.48	4.58	4.73	5.6% ↑

Source: Wüest & Partner Deutschland; Medianpreise

# Economic and Demographic Key Data



## Demographics

City	Population 2015	Population development $\Delta$ 2012-2014	Households 2016	Household development $\Delta$ 2014-2016
Erfurt	210,118	1.3%	107,569	2.6%
Jena	109,527	1.2%	61,300	4.3%
Gera	96,011	-0.9%	54,084	2.4%
Weimar	64,131	0.4%	34,660	1.3%
Eisenach	42,417	0.3%	22,840	0.2%

Sources: State statistical offices and cities' websites; Federal Office of Statistics; BBSR; GfK

## Purchasing Power

City	Household purchasing power 2015 (D = 100)	Household purchasing power $\Delta$ 2010-2015	Retail centrality 2016 Index (D = 100)
Erfurt	86.1	22.5%	112.8
Jena	80.1	9.2%	106.4
Gera	75.1	10.3%	118.1
Weimar	78.2	14.6%	83.9
Eisenach	79.3	11.6%	127.2

Source: GfK Geomarketing

## Labour Market

City	Unemployment rate 2015	Unemployment rate $\Delta$ 2010-2015	Employment subject to social security contributions $\Delta$ 2010-2015	Net commuter flow 2015 (inward minus outward commuters)
Erfurt	7.7	-22.3%	6.2%	26,199
Jena	6.4	-8.4%	11.4%	15,028
Gera	10.2	-23.5%	0.2%	2,278
Weimar	7.7	-25.1%	4.2%	1,845
Eisenach	7.3	-23.6%	8.5%	7,286

Source: Federal Employment Agency statistics

# Building may resume

Thuringia is well equipped for the future. Because so little has been built in many of the region's cities, rental and housing prices continue to increase. Real estate markets are now being energised by the growing number of inhabitants.

Good news for the real estate markets in Erfurt, Eisenach and Weimar: Cologne's Institute for the German Economy (IW) sees further need for apartments in all three cities. The people of Thuringia have to play catch up, because so little has been built in recent years. Between 2008 and 2014, on average only 1.4 new apartments were added per 1,000 inhabitants (national average: 2.1); in Weimar it was 0.9 and in Eisenach only 0.8.

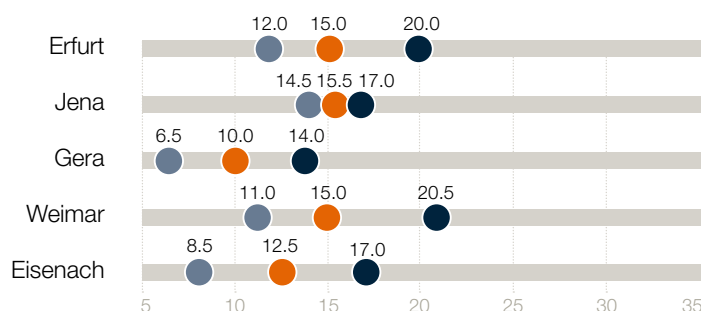
## Renovation and new construction instead of demolition

Therefore the state capital, Erfurt, has announced that it wants to build about 4,000 new apartments by 2022 – spread out over 60 residential building projects. The plan is supported by European funding of EUR 36 million. Because the population is starting to grow again and Erfurt is hoping to reach the population it had before reunification, the city does not want to demolish the old prefabricated concrete apartment blocks, but instead have them renovated. Young people, in particular, are attracted to these affordable apartments. This year was the first in which more prefabricated units were renovated than demolished. Although 2,000 residents moved out, 3,700 new residents moved in.

Jena has also stopped demolishing old apartment buildings, choosing instead to renovate them. Even old administrative buildings in the inner city have been rezoned for housing, as the real estate market has become tight, in spite of many new buildings. Although more housing has been built in this university and research city than anywhere else in Thuringia – yearly 3.1 apartments per 1,000 residents – it is still not enough. Jena is on a growth trajectory. In recent years (2008-14), 4.7% more people moved there. The average rental price is EUR 8.47/sqm (H1 2016) the highest in

## Multipliers

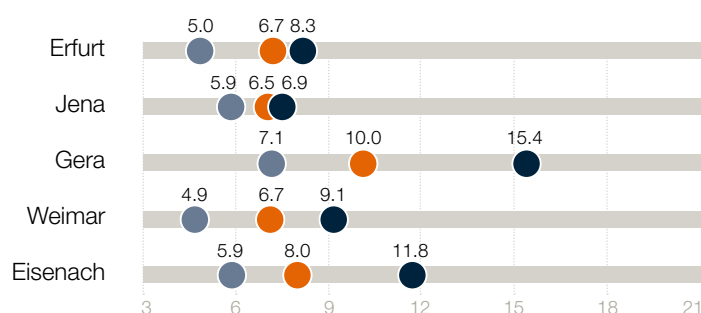
● = minimum ● = average ● = maximum



Source: Property market reports, Wüest & Partner Deutschland

## Gross Yields

in % ● = minimum ● = average ● = maximum



Source: Property market reports, Wüest & Partner Deutschland

## Transaction Market

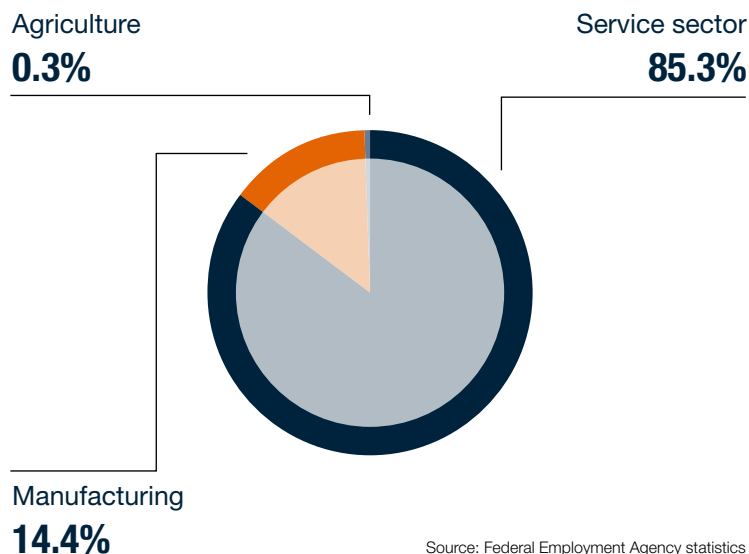
City	Housing 2015 in € millions
Erfurt	463
Jena	173
Gera	78
Weimar	106
Eisenach	52

Source: Property market reports

The transaction volume covers developed land, undeveloped land and well as residential property and apartments.

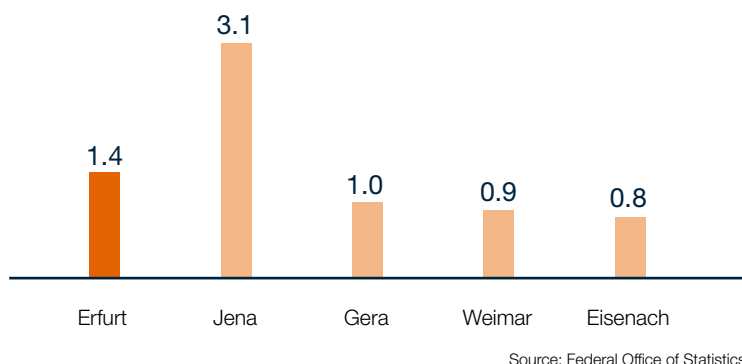


## Economic Structure in Erfurt



## Constructions

Completed construction per 1,000 population Ø 2008-2014 p. a.



Gera, market

Eastern Germany (with the exception of Berlin and Potsdam). Within ten years, rental prices have risen by almost 28%. In the meantime, the state has also enacted rent controls. And social building projects are always being discussed, because not everyone can afford such high rents. Meanwhile, the government is considering construction cost subsidies for investors, to enable them to build affordable apartments. In 2017, EUR 14 million was made available.

The city of Gera, only 35 kilometres away, is also once again receiving investment. The private equity investor, Benson Elliot, has made purchases from the local housing association (GWB), and is now the majority owner of housing stock amounting to 6,700 apartments. British investors want to renovate and modernise many apartment units in the coming years and are preparing for an upswing in what used to be the second-largest city in the state. Although Gera has lost about 6% of its population in the last years. But in terms of purchasing power, the Otto Dix city has almost caught up with Jena. The unemployment rate has sunk by almost 24% to 10% (2010-15). Another positive trend – since 2014, young people from the surrounding areas are once again moving to Gera and have raised the city's population for the first time in 27 years. This will also contribute to lowering the vacancy rate which was at 12% five years ago.

**Solid property market** A few years ago, Eisenach and Weimar had to accept population losses (2008-11). Now their numbers are starting to increase again. The populations of Eisenach and Erfurt have returned to growth. The loss of population in the previous years didn't have a negative impact on real estate prices. On the contrary, according to a current State real estate market report in 2016 "Thuringia, despite its demographic change, had a stable property market". And apartments have never been more expensive. The average price for detached and semi-detached homes rose by 7% (2015-16), and has now reached almost EUR 102,000.





Gera, Lasurstraße

## Property Prices

City	Property purchase price EUR/sqm			% change
	2011	2015	H1 2016	Δ 2011–2016
Erfurt	1,376	1,759	1,808	31.4 %
Jena	1,716	2,108	2,092	22.0 %
Gera	759	651	650	-14.3 %
Weimar	1,173	1,660	1,676	42.8 %
Eisenach	915	1,079	1,167	27.4 %

Source: Wüest &amp; Partner Deutschland; median price

## Rental Prices

City	Apartment rent EUR/sqm/month			% change
	2011	2015	H1 2016	Δ 2011–2016
Erfurt	6.00	6.77	6.96	16.0 %
Jena	8.00	8.60	8.47	5.8 %
Gera	4.65	4.74	4.76	2.4 %
Weimar	6.15	6.97	7.02	14.2 %
Eisenach	5.05	5.56	5.60	10.9 %

Source: Wüest &amp; Partner Deutschland; median price



**Eisenach, An der Tongrube**

**Rising rents and prices** Rental prices have also risen. In a ten-year comparison, rental prices in Erfurt rose by 22.5% to EUR 6.70/sqm (rent controls have recently been enacted here); in Weimar by 26,6% to EUR 6.95/sqm, in Eisenach by 10.9% to EUR 5.55/sqm (average for 2014–16) and in Gera by 7% to EUR 4.72/sqm. On average over the last two years, apartments in Thuringia's capital have cost EUR 1,745/sqm (+ 33% in ten years), in Weimar they cost EUR 1,664/sqm (+18,8%). During this time, prices in the Lutherstadt Eisenach have become 11% cheaper. However, the square metre price in Eisenach was EUR 1,071 (2014–16), but advertised prices in Q1 of this year alone have risen by more than 8% – to EUR 1,159/sqm and to EUR 1,167/sqm in Q2. The historic city is one of the candidates with the best future prospects in Thuringia. The Cologne-based IW even ranked Eisenach, due to its socio-economic position and

its economic development, among the best 100 of 402 examined cities and regions in its national regional ranking. In contrast, Jena is playing in a completely different league – more on par with Dresden and Rostock. The square metre price for property is EUR 2,122 (average for 2014–16), which shows an increase of almost 34% over the last ten years. Investment property, here and in Erfurt and Weimar, sells for an average of 15 times annual net rental income and generates returns of 6.5%.

**Outlook:** Property in Thuringia has never been more expensive than today. On the one hand, this is due to minimal building activity, on the other, due to the growing number of residents in a stable economic environment. We expect positive impulses for the property markets in future. ■



# “Quality is what counts for us – not quantity.”

***Ms. Hoyer, several studies are currently telling that secondary cities are attracting people again. What does this diagnosis mean for TAG Immobilien AG?***

We see these results as a confirmation of our strategy to direct our investment focus to both Northern and also Eastern Germany for about five years now. We believed that the exodus from Eastern German cities would eventually stop and reckoned that the many development and expansion measures in the new federal states would finally bear fruit. It is clear that we have arrived at this point now. Nevertheless, it is important to us to focus intensively on regional conditions. Investments have to be well thought out and potential future developments have to be considered.

***Rental prices at your locations are relatively low. Is it at all worth investing in existing housing stock – to repair and renovate them?***

Of course, after all, the required standards for affordable living space are less than for luxury apartments. These kinds of investments, in connection with higher rental prices after renovation and reduction in vacancies, can be very profitable. When we decide which of the housing stock to renovate or modernise, it is essential to be able to calculate the future perspective for each micro-location. Sometimes, a location can be especially attractive for a certain target group – e.g. pensioners or families. Then, the approach is to develop the housing stock to cater to these groups and customise them to fit the new residents.

***Which criteria do you use to select suitable housing stock to invest in?***

The decisive point is whether the investment will pay out in the long run. In addition to the macro- and micro-economic factors, which have to be positive in the medium term or at least stable, the risk/return ratio also plays a major role. The “run” on real estate has partially led to yield compression while the risk remains the same. In these situations, we are very price sensitive. Additionally, we only invest in regions where we have in-depth knowledge of the market thanks to our own local teams, and we gladly select portfolios with higher vacancies or specific problems which we can turn around using our targeted asset management strategies.

***Wouldn't it be easier to invest in Eastern Germany's high-profile cities, such as Dresden, Leipzig and***



**Claudia Hoyer** has been on the board (COO) of TAG Immobilien AG since July 2012. In this position she is responsible for property and asset management as well as the acquisition and sales of residential real estate.

***Rostock as well as in small and medium-sized cities, such as Eberswalde or Weimar?***

We look at the amount of value we can add. In medium-sized cities, we see great potential in development, including the trend of people moving from villages into these types of cities. Often, we still find portfolios with maintenance backlogs and vacancies, which can be remedied with targeted property and asset management. Quality is what counts for us – not quantity.

***Your property portfolio concentrates on Northern and Eastern Germany. Do you intend to refocus in future, based on the results in your report?***

Years ago, we were already convinced of the positive development in these regions by taking over large portfolios, particularly in the new federal states. We have also been successful with our latest acquisitions, for example in Chemnitz and Freiberg, which can now even be referred to as magnet cities. This is a great example of why we are going to stick to our successful strategy.

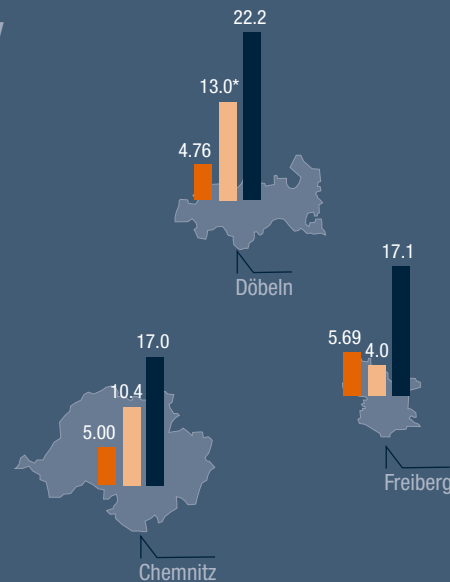
***In terms of scale, is an investment in housing stock worth it for you?***

As I have said, quality is what counts for us, not quantity. Larger portfolios are of course advantageous to be able to optimally use the capital that our investors have made available to us and to take advantage of economies of scale. If we already have real estate in a city, the acquisition of smaller portfolios of about 100 units also makes sense because the management structures are already set up and working.

# Economic and Demographic Key Data

## Saxony

- Rental prices in EUR/sqm (HY1 2016 median, Wüest & Partner Deutschland)
- Vacancy rate 2014/2015 in % (various sources, \*census 2011)
- Home ownership in % (census 2011)



## Demographics

City	Population 2015	Population development Δ 2012-2014	Households 2016	Household development Δ 2014-2016
Chemnitz	247,745	1.0%	133,077	1.3%
Freiberg	40,823	1.9%	22,814	3.1%
Döbeln	23,861	3.0%	13,240	7.4%

Sources: State statistical offices and cities' websites; Federal Office of Statistics; BBSR; GfK

## Purchasing Power

City	Household purchasing power 2015 (D = 100)	Household purchasing power Δ 2010-2015	Retail centrality 2016 Index (D = 100)
Chemnitz	79.9	14.7%	118.5
Freiberg	74.6	6.4%	134.5
Döbeln	72.5	3.9%	130.9

Source: GfK Geomarketing

## Labour Market

City	Unemployment rate 2015	Unemployment rate Δ 2010-2015	Employment subject to social security contributions Δ 2010-2015	Net commuter flow 2015 (inward minus outward commuters)
Chemnitz	8.5%	-27.4%	4.8%	23,838
Freiberg	6.8%	-14.4%	2.5%	5,587
Döbeln	6.8%	-30.2%	-12.1%	608

Source: Federal Employment Agency statistics



# Saxony's hidden pearls

Although Chemnitz, Freiberg and Döbeln are geographically distant from other large cities in Saxony, they are still successful in attracting young people from the region. What were once cities of exodus are now even seen as magnet cities.

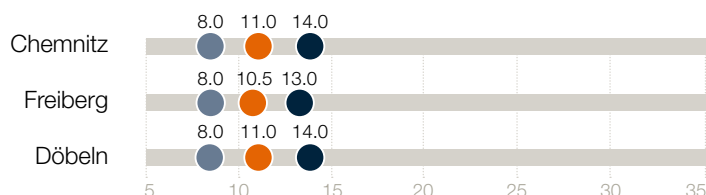
Chemnitz is cheering, and so is Freiberg. Even little Döbeln is enjoying its day in the sun. A current study by the private research institute, empirica, now identifies not only Leipzig and Dresden, but also Chemnitz and Freiberg as so-called magnet cities. Both central Saxonian towns (with Döbeln) are attracting new residents – on their own without the advantage of a nearby metropolis, as shown by empirica.

**Still cheap rents and prices** In particular, young people are coming to these two towns with their technical universities. Although Freiberg has lost some residents to Dresden, it has managed to attract new residents from the surrounding area and currently counts about 41.000 residents. After years of exodus, Chemnitz can also again report a real growth rate. In 2015, about 248.000 people lived in the university town.

Anyone who moves here can be sure to find affordable living space. On average, rental prices in Chemnitz, Freiberg and Döbeln range between EUR 4.73 and 5.61/sqm – and this rate has remained stable for some ten years now. During this time, rents in Chemnitz and Döbeln have only risen slightly, by 2 to 3%; compared to Freiberg's almost 15%, where during the same period of time, prices for residential property have risen by almost 31%. This is a phenomenon that one associates with German metropolises where some purchase prices have risen twice as quickly as rental prices. Nevertheless, housing prices in Freiberg over the last two years averaged just EUR 1,335/sqm; in little Döbeln only EUR 773/sqm and in Chemnitz just EUR 892/sqm – a fall of 26% within ten years. Meanwhile, Chemnitz has caught up. The economy is growing and attracting investors from other federal states. A Bavarian company wants to invest a

## Multipliers

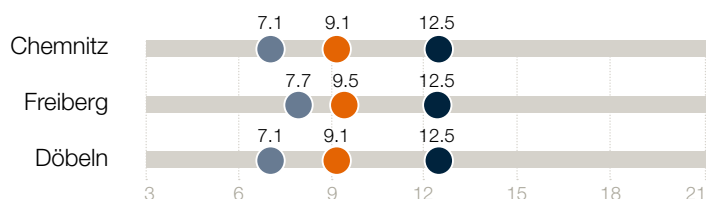
● = minimum ● = average ● = maximum



Source: Property market reports, Wüest & Partner Deutschland

## Gross Yields

in % ● = minimum ● = average ● = maximum



Source: Property market reports, Wüest & Partner Deutschland

## Transaction Market

City	Housing 2015 in € millions
Chemnitz*	330
Freiberg*	334
Döbeln*	334

\*2014

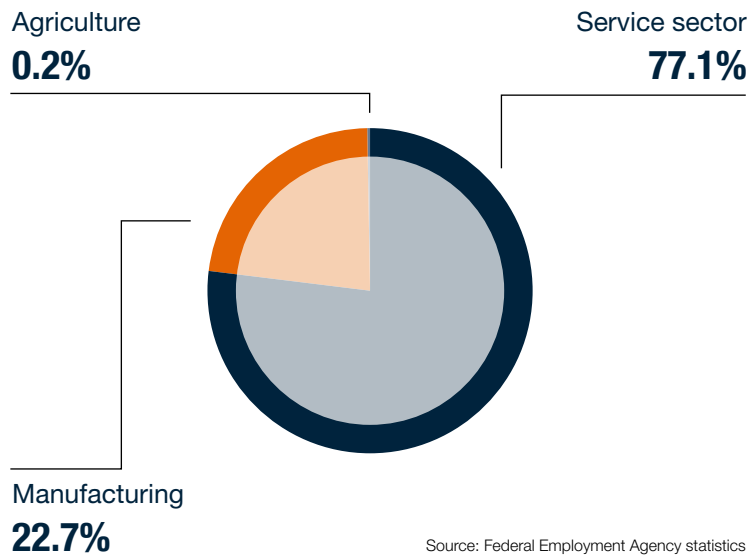
Source: Property market reports

**Transaction volume** includes developed land, undeveloped land as well as residential property and apartments Döbeln, Freiberg: related to the administrative district of Middle Saxony, detailed data not available



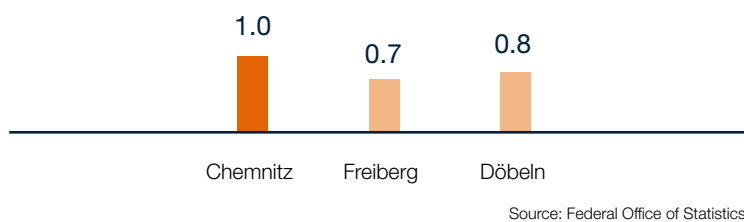
Chemnitz, Hotel Mercure and City Hall

## Economic Structure in Chemnitz



## Constructions

Completed construction per 1,000 population Ø 2008-2014 p. a.



seven-digit sum in a new industrial park because of its “optimal connection to the A72”. This will create new job opportunities and maybe even improve the already positive number of commuters by almost 24,000. Every day, 5,600 more people come to work in Freiberg than leave the city. And even Döbeln can register a positive balance of about 600 commuters.

### Refurbishment and demolition impact

The economic upturn is also reflected in the sinking vacancy rate. In 2011 almost 13.7% of the existing housing stock in Chemnitz was vacant, in 2014 it was down to only 10.4%. Freiberg had a vacancy rate of 7.9% six years ago – relatively low for a typical Saxonian town. And yet, according to empirica, Saxony was still the “vacancy leader” in Germany. However, much of the housing stock was not available on the real estate market, because it had not yet been renovated. This is also true for the Chemnitz region, where those investors who have breathed new life into old buildings are coming out ahead. Dilapidated real estate in Chemnitz and Freiberg which is earmarked for demolition or renovation has been classed by empirica as having “stabilisation potential”.

This is also true for the purchasing power of the people in the region, which rose per household by 14.7% in Chem-



Freiberg, Petersstraße

nitz, in Freiberg by 6.4% and in Döbeln by 3.9% (2010-15). The unemployment rate decreased significantly in the three cities within the last five years: in Döbeln by 30.2% to 6.8%, in Chemnitz by 27.4% to 8.5% and in Freiberg by 14.4% to 6.8%. In terms of the “pulling power” the retail sector exerts on the surrounding areas, Freiberg and Döbeln even beat out the much bigger Chemnitz, that reached an index valuation of “only” 118.5 in comparison to Freiberg (134.5) and Döbeln (130.9).

In all three towns in the region, investors can still buy property at the kind of attractive rates that have long been unavailable elsewhere. Investment property sells at an average price-to-rent ratio of 11 in Chemnitz and Döbeln and at 10.5 in Freiberg. Average yields are over 9 %, peaking at up to 12.5 %.

**Outlook:** The Chemnitz region has had to fight population exodus and high unemployment for many years. However, the region is now enjoying sustained positive development again. The population is growing and the economy, too – and the vacancy rate is declining. Good prospects for investors. ■



Döbeln, Theodor-Kunzemann-Straße

## Property Prices

City	Property purchase price EUR/sqm			% change
	2011	2015	H1 2016	Δ 2011–2016
Chemnitz	879	863	881	0.2% →
Freiberg	980	1,309	1,363	39.2% ↑
Döbeln	720	797	680	-5.6% ↓

Source: Wüest & Partner Deutschland; median price

## Rental Prices

City	Apartment rent EUR/sqm/month			% change
	2011	2015	H1 2016	Δ 2011–2016
Chemnitz	4.75	5.00	5.00	5.3% ↑
Freiberg	5.21	5.50	5.69	9.3% ↑
Döbeln	4.67	4.79	4.76	1.9% →

Source: Wüest & Partner Deutschland; median price



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