



Housing Market Report Eastern Germany 2017

TAG
Immobilien AG

Table of contents

Table of contents	2
Editorial	3
Executive summary	4
Interview with Martin Thiel, TAG Immobilien AG	7
The Rostock region	8
▪ Rostock	
▪ Schwerin	
▪ Stralsund	
▪ Greifswald	
▪ Waren	
The Berlin/Brandenburg region	12
▪ Berlin	
▪ Potsdam	
▪ Brandenburg	
▪ Eberswalde	
▪ Strausberg	
▪ Nauen	
Interview with André Adami, bulwiengesa AG	17
The Leipzig region	18
▪ Leipzig	
▪ Halle	
▪ Magdeburg	
▪ Dessau-Roßlau	
▪ Merseburg	
The Dresden region	22
▪ Dresden	
▪ Cottbus	
▪ Görlitz	
The Erfurt region	26
▪ Erfurt	
▪ Jena	
▪ Gera	
▪ Weimar	
▪ Eisenach	
Interview with Prof. Michael Voigtländer, Cologne Institute for Economic Research (IW)	31
The Chemnitz region	32
▪ Chemnitz	
▪ Freiberg	
▪ Döbeln	
List of sources	36
Legal notice, disclaimer	37

Dear reader,

Forecasts are tricky things, especially when they come up against reality. How often have opinion polls misjudged the political situation, how often have economists made mistakes with their economic models, and how often have meteorologists failed to accurately predict the weather? And how often have we heard: “Eastern Germany is on its deathbed. Sure, Dresden and Leipzig are going to develop quite well. But the truth is, the East is a region of declining birth rates, outward migration, unemployment and an ageing population.”

In fact, Eastern Germany has long broken out of its earlier economic doldrums. And the trend reversal shows no sign of stopping – not only in cities such as Potsdam and Jena, but also in Greifswald and Waren an der Müritz. Populations and birth rates are rising almost across the board, while unemployment rates have fallen sharply in many cases. Jobs are being created again, quality of life is improving, and the region’s population is getting younger and younger. So much for the forecasts.



As the owner of a large portfolio of rental apartments in selected regions of Eastern Germany, these positive developments are motivation enough for us to focus even more intensely on these specific housing markets and to analyse opportunities and risks for future investments.

In this, our second report, we have therefore once again commissioned the real estate service provider Wüest Partner Germany to evaluate the full range of relevant parameters for Eastern Germany’s local and regional housing markets. Here we give an overview of rents, purchase prices, multipliers and returns as well as the vacancy rates in the individual regions.

This 2017 Housing Market Report also focuses on households’ finances, analysing their purchasing power and, for the first time, the proportion of income they spend on their housing. As a growing section of the region’s population now spends a relatively large part of its net income on rent, it was important for us to evaluate just how much these costs are affecting households in our target regions. One thing we can already reveal is that, in contrast to many major German cities, housing cost burden in Eastern Germany has not risen in recent years, it has actually fallen, despite the sharp rise in rents.

Nevertheless, prices are still rising steadily, even in the East. Some locations have seen extreme price hikes, such as Strausberg near Berlin, where the price per square metre for existing residential property has increased by around 75 % over the last five years.

We are convinced that investors would be well-advised to cast their nets beyond the population centres where residential property has been in very short supply and demand has been high for some time now – such as Berlin, Potsdam, Leipzig or Dresden. On the contrary, the little gems of Eastern Germany have enormous potential. It’s certainly worth risking a second look.

Claudia Hoyer
Executive Board (COO)

Martin Thiel
Executive Board (CFO)

Dr. Harboe Vaagt
Executive Board (CLO)

Executive Summary

It's easy to live well in Eastern Germany. The populations of Erfurt and Leipzig have known this for some time now, as have the people of Rostock and Greifswald. And now, even the population of Western Germany is sitting up and taking notice. A steadily increasing number of people from Western Germany are making their home in Eastern Germany. A large influx of immigrants from a variety of different countries is also contributing to the region's positive demographics. All of the cities surveyed in this study are enjoying net population growth. This applies not only to Dresden and Jena, but also, for example, to the small university town of

Freiberg, which attracted almost 1,000 new inhabitants in 2015 alone, as well as to the Brandenburg town of Eberswalde, whose population has grown by around 600 within a year.

Berlin's periphery is booming

In both Western and Eastern Germany, the recent influx of foreign immigrants, the trend towards urbanisation and the positive economic growth are the engines driving population growth, rental price inflation and higher property purchase prices. However, it does not automatically follow that the bigger the city, the

Rental prices, purchase prices, vacancy rates and housing cost burden

City	Median rent absolute H1 2017	Change in % Δ 2012-2017 (H1)	Purchase prices in EUR/sqm absolute H1 2017 new-build	Change in % Δ 2012-2017 (H1)
Rostock	6.08	-0.5 →	3,523	44.1 ↑
Schwerin	6.00	0.0 →	2,895	49.9 ↑
Stralsund	6.35	5.4 ↑	2,235	12.2 ↗
Greifswald	8.01	7.2 ↑	2,376	33.6 ↑
Waren	6.10	9.8 ↑	2,472	38.5 ↑
Berlin	10.09	33.4 ↑	4,638	37.9 ↑
Potsdam	9.99	17.7 ↑	3,795	13.1 ↗
Brandenburg	5.48	9.6 ↑	1,600	-26.1 ↓
Eberswalde	5.64	12.8 ↑	1,256	k. A.
Strausberg	6.87	23.5 ↑	2,600	33.5 ↑
Nauen	6.49	20.8 ↑	2,678	62.4 ↑
Leipzig	6.25	25.0 ↑	3,349	45.6 ↑
Halle (Saale)	5.89	11.4 ↑	2,231	31.5 ↑
Magdeburg	5.76	13.9 ↑	2,305	7.0 ↗
Dessau-Roßlau	5.38	5.8 ↑	1,583	36.0 ↑
Merseburg	5.23	4.6 ↗	1,762	38.1 ↑
Dresden	7.30	16.7 ↑	3,077	25.6 ↑
Cottbus	5.57	8.8 ↑	2,042	19.2 ↗
Görlitz	4.73	9.0 ↑	1,883	24.9 ↑
Erfurt	7.02	10.5 ↑	2,571	16.4 ↗
Jena	8.57	0.6 →	2,755	27.5 ↑
Gera	4.86	3.6 ↗	2,217	71.4 ↑
Weimar	7.00	6.6 ↑	2,371	25.1 ↑
Eisenach	5.76	11.1 ↑	2,013	108.6 ↑
Chemnitz	5.02	4.1 ↗	2,150	46.6 ↑
Freiberg	5.71	3.3 ↗	1,967	5.6 →
Döbeln	4.79	4.0 ↗	1,230	30.3 ↑

greater the price increase. This is amply demonstrated by the fact that the highest price surges for apartments between 2012 and the first half of 2017 were registered in Nauen (+ 62 % in the new-build segment) and Strausberg (+ 75 % for existing buildings). This is because both towns are located just outside Berlin, and large numbers of households have been priced out of the Berlin housing market. This has led a growing number of households to look for housing beyond Berlin's borders and is driving property prices in the periphery ever higher. Even with these price increases, the move often makes sound financial sense. Since 2012 prop-

erty prices in Strausberg have risen by almost 75 % to a current average of EUR 1,600/sqm for a previously owned apartment, while in Berlin they have risen to around EUR 3,100/sqm – an increase of more than 50 % within just five years. That's similar to the rate at which property prices have increased in Görlitz (39 %), although prices here still remain among the lowest in the region, at just EUR 686/sqm for apartment in existing buildings. Despite rapid growth, property prices in Eberswalde, Dessau-Roßlau, Merseburg, Gera, Chemnitz and Döbeln are all still below the EUR 1,000/sqm threshold.

Purchase prices in EUR /sqm absolute H1 2017 older buildings	Change in % Δ 2012-2017 (H1)	Vacancy rates (different sources) 2015 in %	Housing cost burden 2017 in %	Development in % points housing cost burden Δ 2006-2017
2,174	46.1	2.0	20.9	-3.9
1,399	0.0	8.4	20.7	-0.4
1,566	22.1	5.7	22.6	-0.8
1,331	11.6	3.5	24.6	3.8
1,696	12.5	2.4	20.7	-0.1
3,073	55.6	1.2	31.6	7.5
2,805	27.3	1.2	29.2	4.0
1,317	31.7	9.4	20.0	-0.4
704	-28.5	9.7	22.6	-1.0
1,591	74.9	3.0	23.0	1.0
1,154	6.5	5.0	22.5	3.4
1,381	32.6	5.3	22.9	-0.1
1,111	11.1	8.0	21.6	-0.9
1,012	17.2	5.4	20.7	1.1
744	-10.7	10.5	20.4	-1.7
783	23.6	6.0	19.2	-3.7
1,755	16.7	2.0	23.2	0.9
1,208	4.1	5.0	21.3	-0.8
686	38.7	18.0	20.5	-0.5
1,534	12.8	2.5	21.6	-0.3
1,978	13.6	1.1	26.6	1.5
607	-0.4	12.0	19.2	-0.8
1,489	6.0	2.0	24.9	1.0
1,095	13.4	8.5	21.0	-0.1
768	0.5	9.0	17.5	-1.9
1,058	14.4	7.0	20.0	-0.3
669	8.1	18.0	19.2	-1.5

Source: CBRE-empirica, GfK, BBSR, TAG Immobilien AG (Housing Market Report 2016), Wuest Partner Germany, www.immodaten.net

Affordable housing cost burden

On the whole, rental prices in Eastern Germany have also remained at a level that does not excessively burden household budgets. On the contrary, in many cities the housing cost burden has actually fallen – a by product of declining unemployment rates and rising purchasing power. Unemployment rates have fallen in all of the cities examined in detail for this study, in some cases sharply, such as in Strausberg and Weimar, for example, where they have fallen by more than 34 % (2010-2016). At the same time, household purchasing power has increased significantly – often by double digits. Erfurt has seen household purchasing power increase by more than 25 %, Rostock, Berlin and Leipzig by more than 20 %.

But it is not only here that housing cost burdens have been falling. There have also been decreases in Eberswalde, Cottbus and Gera. The proportion of household incomes spent on housing costs ranges from 17.5 % (Chemnitz) to 26.6 % (Jena). In contrast, in Berlin and Potsdam, where households spend an average of almost 32 % and 29 % of their incomes on housing, rents are more expensive not only in absolute terms but also in relation to disposable net household incomes than at many other locations. In some parts of Berlin, the housing cost burden is up to 50 %. Housing markets in both cities have been tight for some time now, a fact reflected by their extremely low vacancy rates of less than 2 %. Only Jena, where vacancies are running at 1.1 %, has fewer unoccupied residential units. Görlitz, where vacancy

rates are approximately 18 %, is the region's population centre with the readiest supply.

Falling vacancy rates and rising rents

However, double-digit vacancy rates are rarely found in any of the towns and cities examined in this study. As more people move into Eastern Germany's cities, there has been a reduction in vacancies and rents have stabilised. Between 2012 and 2017, rental prices have risen everywhere. In Leipzig, they increased by a whopping 25 %, in Strausberg by 23.5 %, in Dresden by 16.7 % and in Magdeburg by almost 14 %. In most cities, however, the average rental price is still between EUR 5.00 and 7.00/sqm. Potsdam and Berlin are in a league of their own, with rents averaging EUR 10.00/sqm.

High purchase price-to-rent multiplier in Berlin and Potsdam

The same applies to price-to-rent multipliers for residential properties. In Berlin (where the peak multiplier is 30) and Potsdam (peak multiplier 27), apartment buildings cost a minimum of 15 times their annual rental income; a minimum that is, in many cases, as high as other locations' maximums – exceeding, for example, the peak multipliers in Schwerin, Greifswald, Gera and Chemnitz. However, in Merseburg, Erfurt and Weimar, the best apartment buildings, namely those in excellent condition and in prime locations, are already being traded at some 20 times net annual rental income. ■

Methodology

The selection of the regions and locations analysed in this market report was based on two criteria: As the publisher of the report, TAG Immobilien AG selected large and medium-sized cities in Eastern Germany, that are the focus of its interest. Where required, Wüest & Partner has added further important locations that function as supply centres for their regions.

Information on rental and purchase prices is based on data from IDN Immodaten and was compiled and analysed by Wüest Partner Germany. Different from last years report, a distinction has been made between the purchase prices of new-build and existing buildings. This has enabled us to achieve a greater degree of differentiation.

The data on the vacancy rates is based on data from CBRE-empirica 2015, BBSR 2015 and the TAG Housing Market Report Eastern Germany 2016, which were analyzed by Wuest Partner Deutschland.

Information on the population figures is based on various sources as of 31. December 2015. The figures for the respective population development are taken from the data provided by the Federal Statistical Office.

Information on household numbers is derived from GfK and refers to the municipal level.

The housing cost burden describes the relationship between housing costs (rent including service charges) and net household income (the sum total of a household's net income, i.e. after taxes and other statutory deductions).

Other sources of the data used in the tables and graphs shown in this report, as well as for the statements in the chapters, can be found in the list of sources at the end of the report.

“Growth through modernisation”

Rising purchase prices in many cities and regions are presenting housing companies with new challenges. The costs of acquisition and new construction have risen, while achievable property yields have fallen. Investing in the modernisation of existing housing stocks can be a viable alternative, as demonstrated by TAG Immobilien AG

Mr. Thiel, what are your objectives with regard to modernising your portfolio?

First of all, it is important to distinguish between scheduled maintenance, which we of course also take care of, and modernisation as an additional investment. In the latter case, we aim to increase the value of our portfolio through targeted modernisation measures. In technical terms, these investments are also called CAPEX, or capital expenditure. In addition to comprehensive building modernisations, we invest a large proportion of our funds in rental apartments, many of which have been vacant for extended periods of time and are hardly in a marketable condition. From this starting point, we are able to systematically reduce vacancies and thus increase the value of our portfolio.

How do your investments pay off?

In 2016, we invested a total of around EUR 47 million on modernising our portfolio. Of this, approximately half was invested in modernising larger housing estates and vacant apartments, with a smaller proportion invested in apartments as they were re-rented. With the modernisation of vacant units, TAG achieves an initial yield of just under 50 % on average. In simple terms, refinancing is therefore possible within two years of the new lease. More important than the initial yield, however, is the return on investment, and thus the viability of the measures. In the case of normal apartment renovations, a level of at least 20 to 30 % is required in order to achieve an acceptable return on investment.

What other criteria determine your investment decisions?

In addition to achievable return on investment, the location of the property and its positioning on the local housing market are decisive factors for us. Our employees precisely determine the local demand situation and the market rents that can be achieved as a result. Higher demand is increasingly benefiting not only the major population centres but also smaller and medium-sized cities in Eastern Germany. Cities such as Chemnitz and Halle are growing steadily. At the same time, vacancy rates are still comparatively high at some locations in these cities,



Martin Thiel is CFO of TAG Immobilien AG

often in older, lettable districts. This is exactly where we look to invest and actively reduce vacancies. However, it is only worthwhile investing in housing with high levels of vacancies if the specific modernisation measures suit the respective location.

Do you have a specific example?

In 2014, we acquired a property in Freiberg, Saxony, with 128 apartments. The city is one of the fastest growing medium sized towns in Eastern Germany. When we bought the property, more than 10% of the apartments were vacant. We decided to renovate the interiors of these apartments – installing new sanitary fittings, floor coverings, interior doors, and giving them a new coat of paint and new wallpaper. We were able to successfully let all of the apartments after we had modernised them, a process which took only about four weeks per unit. The EUR 67,000 invested in the first year was offset by around EUR 33,000 on the revenue side. The initial return therefore amounted to almost 50%. At the end of the project, only 2.3% of the apartments in the property were vacant.

Modernisation leads to higher rents. What about local acceptance?

The decisive factors for us are the local tenant structures and the achievable market rents. If we ignored these factors, we simply wouldn't be successful. In practice, this means that we only increase rents in tenanted properties moderately after we've modernised them. This has been accepted by our tenants. What is more, wherever we reduce vacancies through modernisation, we help to stabilise and revitalise neighbourhoods. This allows us to supply local housing markets with around 1,000 modern apartments per year to meet the needs of today's tenants ■











Economic and Demographic Key Data

 Rental prices in EUR/sqm
(H1 2016 median, Wüest Partner Deutschland)

 Vacancy rate 2015 in %
(Source see methodology)

Mecklenburg-Vorpommern











Demographics

City	Population 31.12.2015	Population develop- ment Δ 2013-2015	Households 2016/2017	Household development Δ 2015/16-2016/17	Net migration 2015
Rostock	206,011	1.3% 	118,498	0.5% 	1,889
Schwerin	96,800	5.7% 	55,344	8.8% 	4,960
Stralsund	58,041	1.3% 	32,105	2.1% 	789
Greifswald	57,286	1.5% 	30,889	6.2% 	667
Waren	21,153	1.0% 	10,764	4.4% 	2,272*

*LK Meckl. Seenplatte




Source: GfK; Statistics of the state offices of the federal states and Internet sites of the cities

Purchasing Power

City	Household purchasing power 2017 (D = 100)	Household purchasing power Δ 2010-2017	Housing cost burden 2017	Housing cost burden Δ 2006-2017 in %-Points
Rostock	74.0	20.2% 	20.9%	-3.9 
Schwerin	76.7	14.5% 	20.7%	-0.4 
Stralsund	72.4	13.0% 	22.6%	-0.8 
Greifswald	76.0	7.7% 	24.6%	3.8 
Waren	83.1	14.1% 	20.7%	-0.1 

Source: GfK, Wüest Partner Germany

Labour Market

City	Unemployment rate 2016	Unemployment rate Δ 2010-2016	Employment subject to social security contributions Δ 2011-2016	Net commuter flow 2016 (inward minus outward commuters)
Rostock	9.80	-23.55% 	9.9% 	10,830
Schwerin	9.80	-25.13% 	4.8% 	15,240
Stralsund	11.40	-9.70% 	2.7% 	4,654
Greifswald	11.70	-10.10% 	10.6% 	6,388
Waren	12.10	-18.15% 	9.3% 	2,689

Source: Statistics Federal Labour Office

The future of the maritime cities

Rostock, Schwerin, Stralsund, Greifswald and Waren an der Müritz are the poster children of Mecklenburg-West Pomerania. Unemployment is falling across the board and more and more jobs are being created – above all in the region's growing service sector. In spite of rising rental and property purchase prices, housing remains comparatively affordable.

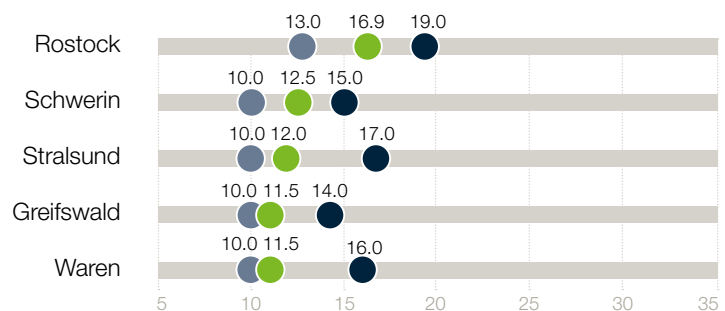
Greifswald is one of the real winners. It's not only in Mecklenburg-West Pomerania that this small Hanseatic city is succeeding in the demographic battle for inhabitants. Having registered household growth of 6.2 %, it is playing in the same league as cities such as Jena (3 %) and Dresden (4.2 %). This has had a noticeable impact on the local housing market, establishing Greifswald as the most expensive city in the state. Rents have risen to an average of around EUR 8.00/sqm – more than in any other town or city in the region. Rental prices in Rostock may have gained 7 % during the first half of 2016, but the city's median rent has not budged much above EUR 6.00/sqm. In Schwerin, despite the fact that rental prices have risen, the median is also just EUR 6.00/sqm, while tenants in Stralsund pay EUR 6.35/sqm. With rents at such comparatively low levels, it is no surprise that households are also less burdened by the cost of housing – a situation that has existed for around a decade now. Over the past ten years, the region's housing cost burden has remained almost universally stable and in a number of markets, as purchasing power has risen, it has even fallen. The only exceptions are an isolated number of districts in Rostock, in which residents currently face a higher housing cost burden than in the past. In the coveted districts of Warnemünde and Hohe Düne, right on the Baltic Sea coast, the housing cost burden has increased by seven percentage points to 28 %. In comparison, housing costs in a number of Berlin's districts can swallow up 50 % of household budgets.

Waren: Significant price rises

Households in Waren an der Müritz spend only around 21 % of their income on housing. It may be a small

Multipliers

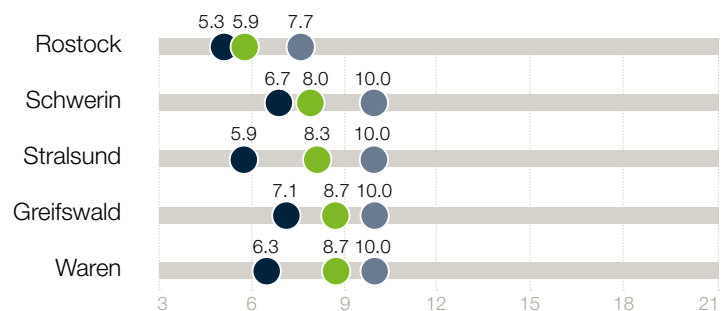
● = minimum ● = average ● = maximum



Source: Real estate market reports, Wüest Partner Germany, Database: Schwerin (H1 2017), Rostock (2016), other cities 2015

Gross Yields

in % ● = minimum ● = average ● = maximum



Source: Real estate market reports, Wüest Partner Germany, Database: Schwerin (H1 2017), Rostock (2016), other cities 2015

Transaction Market

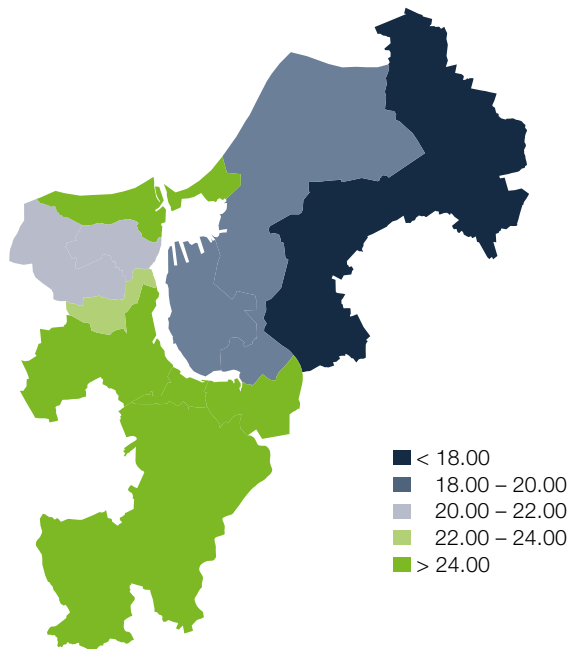
City	Housing 2016 in € millions
Rostock	394
Schwerin	197
Stralsund	60
Greifswald*	400
Waren	105

Source: Real estate market reports, *Data for the whole district Database: Schwerin (H1 2017), Rostock (2016), other cities 2015

The transaction volume includes developed land (bB), undeveloped building land (uB) and residential and partial ownership (WE/TE)

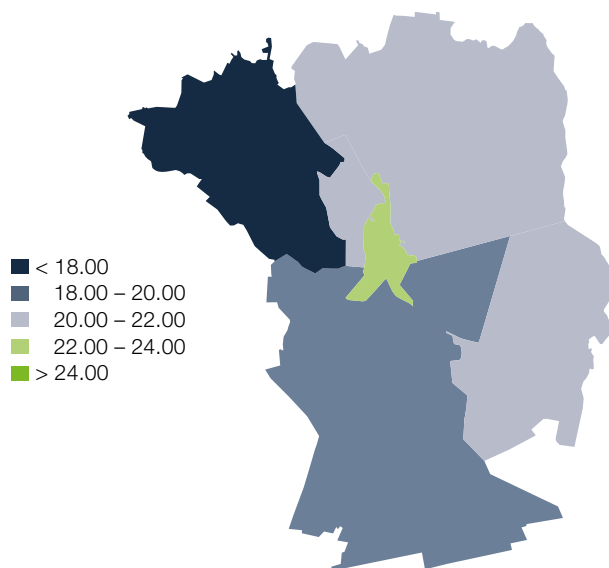
Rostock

Median housing cost burden in 2017 in %



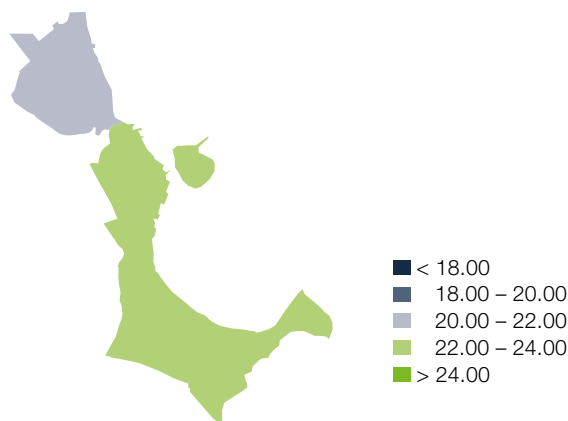
Schwerin

Median housing cost burden in 2017 in %



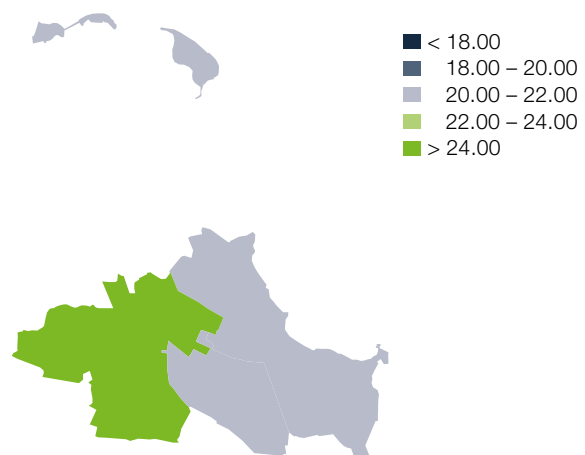
Stralsund

Median housing cost burden in 2017 in %



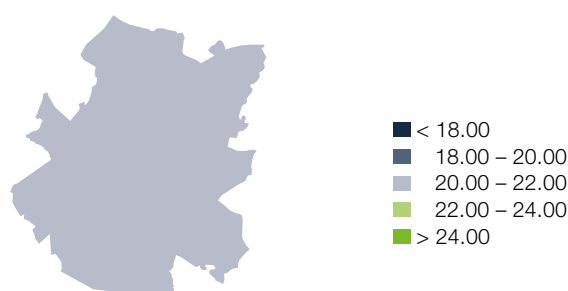
Greifswald

Median housing cost burden in 2017 in %



Waren

Median housing cost burden in 2017 in %



city, with rental prices currently averaging EUR 6.10/sqm, but it has registered the strongest price growth in the region over the last few years. Between 2012 and 2016, rental prices increased by 9.8 %. The driving factor behind these increases is the city's appeal as a tourist hotspot, thanks to its federally licensed medicinal spa and image as a water sports paradise. Employment grew by 9.3 % between 2011 and 2016. Boasting a retail centrality index score of over 150, the city is not only a retail magnet for its 21,000 inhabitants, but also for the surrounding region.

Greifswald: University fuels prosperity

What Greifswald lacks as a retail centre, it more than makes up for with its university, which is a major engine of prosperity. The population grew to more than 57,000 between 2013 and 2015, a rise of 1.5 %, while the number of jobs subject to social security contributions has risen by 10.6 % since 2012, outpacing the rest of the region – and still rising. Of course, this has all had an impact on the housing market. Vacancies are running at just 3.5 %. And that's despite more new homes being built here than anywhere else in the region. Only Rostock has a comparably meagre vacancy rate – 2 % – although far fewer new homes have been built.

Rostock: Expensive residential properties

Rostock and Schwerin lead the pack in terms of price rises in the apartment segment. In the first half of this year, new-build apartments in Rostock cost an average of EUR 3,500/sqm – a gain of 44 % in comparison to 2012. New-build apartments in Schwerin now cost an average of almost EUR 2,900/sqm (+50 %). Still, other cities in the region had already experienced significant

price rises in previous years. For instance, prices for newly built apartments in Waren rose by almost 39 % since 2012, climbing to around EUR 2,500/sqm. Over the same period, prices in Greifswald rose by around 34 %, to EUR 2,400/sqm for new build condominium. In Schwerin, Stralsund, Greifswald and Waren, apartment buildings are currently changing hands at multipliers of between 11.5 and 12.5. As a general rule, the entire region is on a development course and the price level will continue to increase.

Outlook: The towns and cities on Mecklenburg-West Pomerania's coasts and lake shores are widely regarded as offering a good quality of life. And this isn't about to change. Of course, rental prices will continue to rise in response to the region's ongoing housing shortage, but, unlike in other regions, households here will not be burdened to the same extent because purchasing power gains will compensate for higher housing costs. Prices for apartments and multi-family apartment buildings remain comparatively low, which means that investors can buy at affordable prices and be fairly certain that values will continue to rise. ■

Rental prices

	Rents in EUR/sqm	Rents in EUR/sqm	Rents in EUR/sqm	Change
City	2012	H1 2016	H1 2017	Δ 2012-2017 (H1)
Rostock	6.10	5.68	6.08	-0.5 % →
Schwerin	6.00	5.86	6.00	0.0 % →
Stralsund	6.02	6.24	6.35	5.4 % ↑
Greifswald	7.47	8.21	8.01	7.2 % ↑
Waren	5.56	6.26	6.10	9.8 % ↑

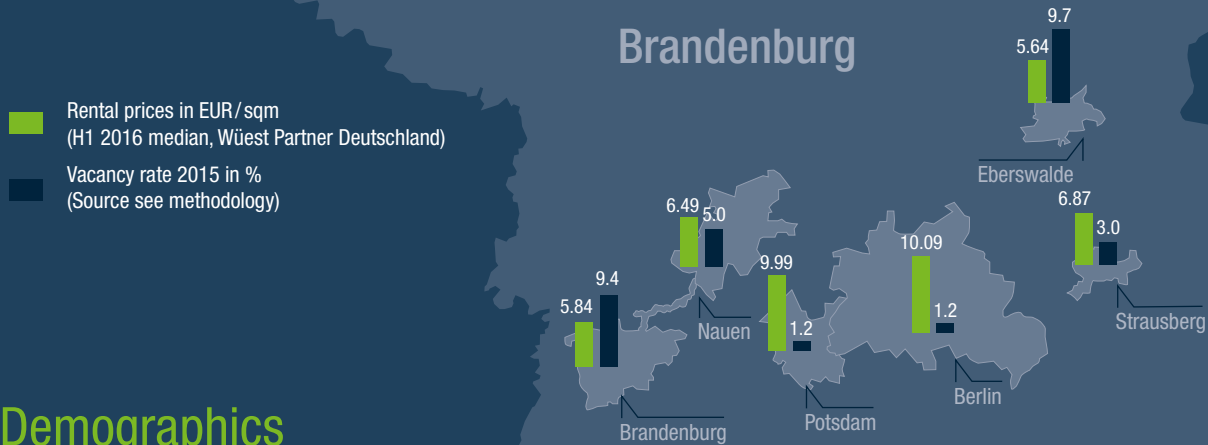
Source: Wüest Partner Germany based on immodaten.net; Median prices

Purchase prices

	Purchase prices, EUR/sqm	Change	Purchase prices, EUR/sqm	Change
City	absolute H1 2017 new-build	Δ 2012-2017 (H1)	abs. H1 2017 exist. buildings	Δ 2012-2017 (H1)
Rostock	3,523	44.1 % ↑	2,174	46.1 % ↑
Schwerin	2,895	49.9 % ↑	1,399	0.0 % →
Stralsund	2,235	12.2 % ↑	1,566	22.1 % ↑
Greifswald	2,376	33.6 % ↑	1,331	11.6 % ↑
Waren	2,472	38.5 % ↑	1,696	12.5 % ↑

Source: Wüest Partner Germany based on immodaten.net; Median prices

Economic and Demographic Key Data



Demographics

City	Population 31.12.2015	Population development Δ 2013-2015	Households 2016/2017	Household development Δ 2015/16-2016/17	Net migration 2015
Berlin	3,520,031	2.9%	2,008,823	3.1%	41,085
Potsdam	167,745	3.9%	94,680	4.6%	3,344
Brandenburg	71,574	0.8%	38,489	2.5%	895
Eberswalde	39,303	1.2%	21,352	2.5%	597
Strausberg	26,213	1.8%	13,761	4.6%	369
Nauen	16,943	2.0%	8,235	5.1%	222

Sourcen: GfK; Statistics of the state offices of the federal states and Internet sites of the cities

Purchasing Power

City	Household purchasing power 2017 (D = 100)	Household purchasing power Δ 2010-2017	Housing cost burden 2017	Housing cost burden Δ 2006-2017 in %-Points
Berlin	79.4	21.2%	31.6%	7.5
Potsdam	86.1	16.1%	29.2%	4.0
Brandenburg	77.2	10.7%	20.0%	-0.4
Eberswalde	70.4	10.8%	22.6%	-1.0
Strausberg	80.9	6.0%	23.0%	1.0
Nauen	85.3	9.7%	22.5%	3.4

Source: GfK, Wüest Partner Germany

Labour Market

City	Unemployment rate 2016	Unemployment rate Δ 2010-2016	Employment subject to social security contributions Δ 2011-2016	Net commuter flow 2016 (inward minus outward commuters)
Berlin	9.80	-21.70%	18.6%	121,357
Potsdam	6.70	-12.12%	6.4%	15,608
Brandenburg	10.90	-22.80%	5.9%	2,425
Eberswalde	7.10	-25.98%	0.2%	2,181
Strausberg	7.80	-34.22%	9.2%	-1,017
Nauen	7.40	-14.36%	18.6%	244

Source: Statistics Federal Labour Office

The B-Team steps into the limelight

There's no doubt about it: in terms of attractiveness, Berlin and Potsdam are the undisputed favourites. However, as the two cities have become increasingly crowded and expensive, more and more renters and buyers are drawn to the suburbs of these two cities. Locations with convenient and fast transport links, such as Strausberg and soon Nauen, exhibit the best prospects for the future.

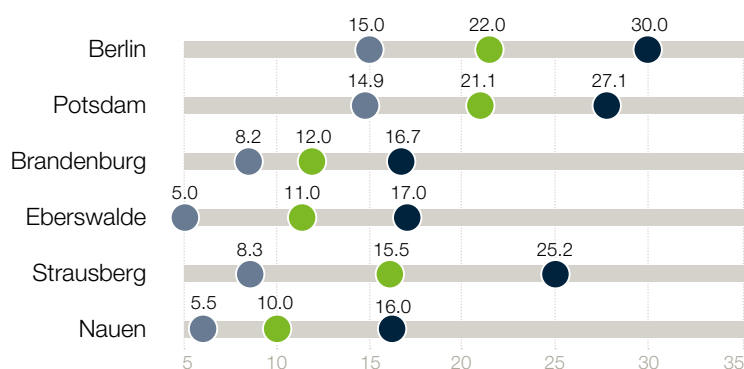
Prosperous Berlin is undeniably a powerful magnet for young people from all over the world. The booming start-up scene is creating new jobs and the city's cosmopolitan population bestows a vibrant, international flair on the German capital. Between 2011 and 2016, the number of employees subject to social security contributions increased by 18.6 % – proof enough that the City on the Spree's economy is booming. It is therefore hardly surprising that forecasts for the 3.5-million metropolis are also extremely positive: Berlin is expected to grow by a further 10.3 % by 2030 (wegweiser-kommune.de). Only stylish Potsdam next door is set to attract even more new citizens, with growth predicted to hit 11.6 %.

Hinterlands benefitting from low vacancy rates

The housing markets in both Berlin and Potsdam have become exceedingly tight. In Berlin as a whole, only 1.2 % of rental apartments are currently vacant; in Potsdam, the figure is also 1.2 % (2015). And this is despite the fact that Potsdam has been busy building new housing over the past few years – according to the Federal Statistical Office 4.9 apartments per 1,000 inhabitants have been built in the old garrison town just outside Berlin's gates – more than in any other city in the Berlin-Brandenburg region, where the median rent is EUR 9.99/sqm. Averaging EUR 10.10/sqm, Berlin is now even more expensive – with rents up by 33.4 % within just five years. In the rest of the region rental housing is considerably cheaper, but rents have also been rising steadily since 2012. In Brandenburg an der Havel, rents have risen to EUR 5.50/sqm, an increase of almost 10 %; in Eberswalde, at EUR 5.60/sqm, rental prices are now 12.8 % higher than 2012

Multipliers

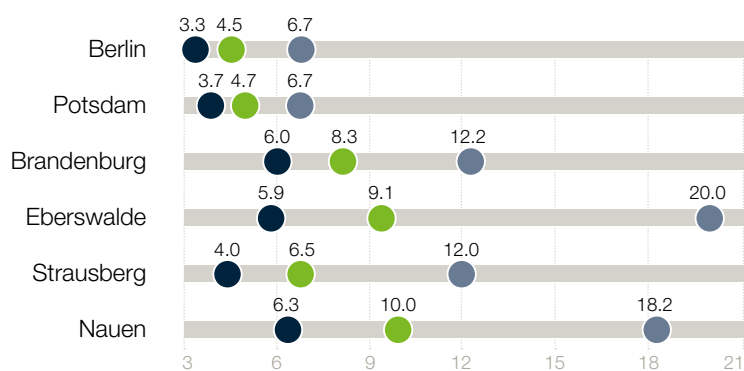
● = minimum ● = average ● = maximum



Source: Real estate market reports, Wüest Partner Germany, Database: 2016

Gross Yields

in % ● = minimum ● = average ● = maximum



Source: Real estate market reports, Wüest Partner Germany, Database: 2016

Transaction Market

City	Housing 2016 in € millions
Berlin*	13,783
Potsdam	1,071
Brandenburg	93
Eberswalde*	392
Strausberg**	306
Nauen***	49

*District Barnim

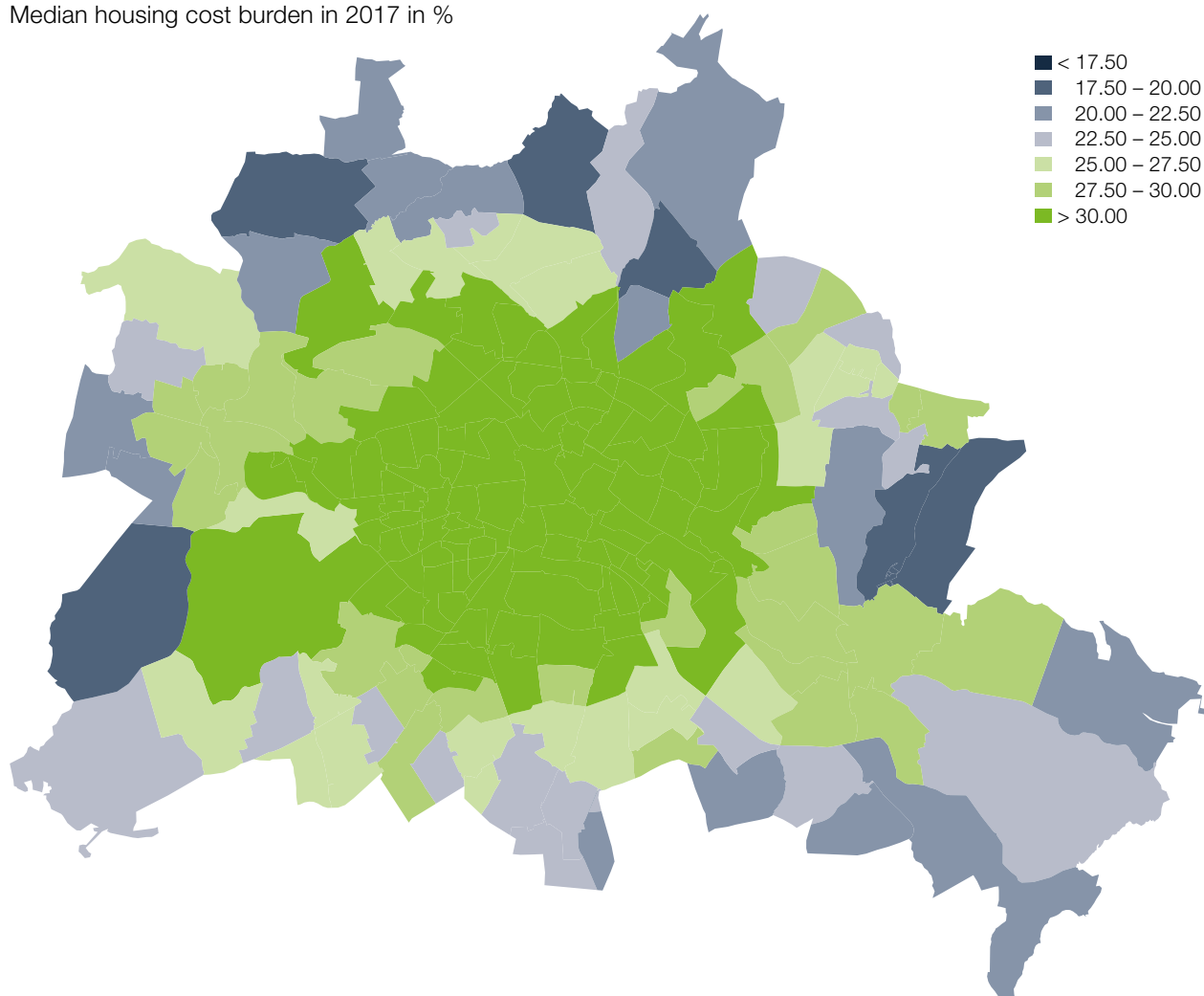
Source: Real estate market reports

District Märkisch-Oderland *District Havelland

The transaction volume includes developed land, undeveloped building land and residential and partial ownership. Berlin: Volume based on rental apartment buildings (excluding commercial properties) and/or on floor space for multi-storey housing construction. Potsdam: Volume based on building land for multi-storey housing construction. Nauen: Volume in relation to the entire county.

Berlin

Median housing cost burden in 2017 in %



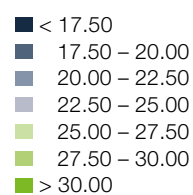
Potsdam

Median housing cost burden in 2017 in %



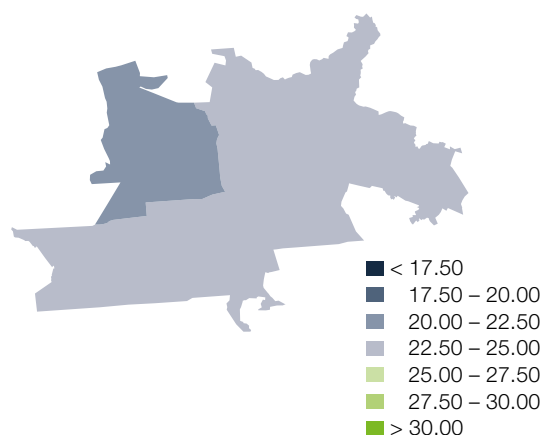
Brandenburg

Median housing cost burden in 2017 in %



Eberswalde

Median-Wohnkostenbelastungsquote 2017 in %



levels. Strausberg and Nauen have recorded even bigger price jumps, with increases of 23.5 % and 20.8 %, although rents are still well below EUR 7.00/sqm.

Purchase prices surge in a number of peripheral areas

Berlin's pull effect is also having a major impact on real estate prices in the city – and on the surrounding area as

a whole. Over the past five years, the price per square metre for an apartment in Berlin has risen by almost 56 % to around EUR 3,100/sqm in existing buildings and by almost 38 % to approximately EUR 4,600/sqm in new developments. In neighbouring Potsdam, residential property is only slightly cheaper, at EUR 2,800/sqm (existing buildings) and EUR 3,800/sqm (new-build). In contrast, prices for previously-owned apartments in Eberswalde (EUR 700/sqm) and Brandenburg (EUR 1,300/sqm) are falling significantly. Strausberg, which benefits from close geographical proximity to Berlin, experienced price increases of 75 % (existing buildings) within just five years. As more and more families from Berlin move to the surrounding state of Brandenburg, purchase prices in a number of the peripheral communities are rising rapidly. The closer to Berlin, the higher the prices: In Nauen alone, the average price per square metre in the new-build segment has skyrocketed by 62 % over the past five years; with prices averaging EUR 2,700/sqm, the small town in Havelland is currently the third most expensive location in the region. The main reason for the price explosion: Plans to extend the S-Bahn line from Berlin-Spandau to Nauen via Falkensee. According to a published study in 2016, the State of Brandenburg has recognised that it needs

Rental prices

	Rents in EUR/sqm	Rents in EUR/sqm	Rents in EUR/sqm	Change
City	2012	H1 2016	H1 2017	Δ 2012-2017 (H1)
Berlin	7.56	9.89	10.09	33.4 % ↑
Potsdam	8.49	9.82	9.99	17.7 % ↑
Brandenburg	5.00	5.32	5.48	9.6 % ↑
Eberswalde	5.00	5.80	5.64	12.8 % ↑
Strausberg	5.56	6.84	6.87	23.5 % ↑
Nauen	5.38	6.37	6.49	20.8 % ↑

Source: Wüest Partner Germany based on immodaten.net; Median prices

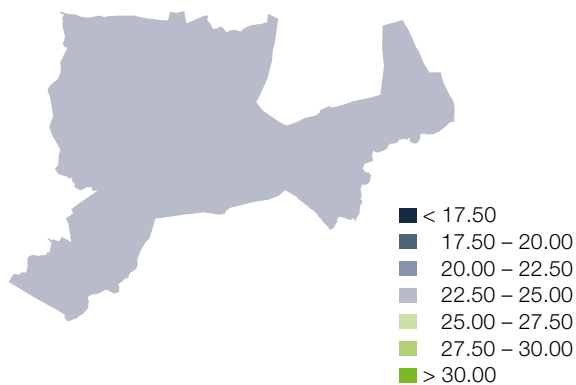
Purchase prices

	Purchase prices. EUR/sqm	Change	Purchase prices. EUR/sqm	Change
City	absolute H1 2017 new-build	Δ 2012-2017 (H1)	abs. H1 2017 exist. buildings	Δ 2012-2017 (H1)
Berlin	4,638	37.9 % ↑	3,073	55.6 % ↑
Potsdam	3,795	13.1 % ↑	2,805	27.3 % ↑
Brandenburg	1,600	-26.1 % ↓	1,317	31.7 % ↑
Eberswalde	1,256	k.A.	704	-28.5 % ↓
Strausberg	2,600	33.5 % ↑	1,591	74.9 % ↑
Nauen	2,678	62.4 % ↑	1,154	6.5 % ↑

Source: Wüest Partner Germany based on immodaten.net; Median prices

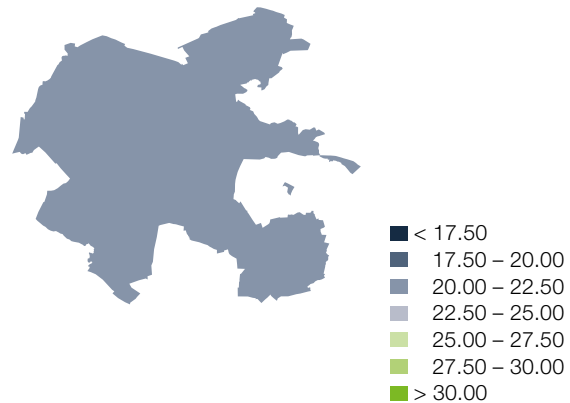
Strausberg

Median housing cost burden in 2017 in %



Nauen

Median housing cost burden in 2017 in %



to take action in response to growing numbers of commuters and overcrowded regional trains on the route. The prospect of a fast connection from Nauen, which is only 18 kilometres from the outskirts of Berlin, is already being factored into prices.

Strausberg: S-Bahn connection as price guarantee

The average purchase price-to-rent ratio (multiplier) for an apartment building in Nauen, which has a population of 17,000, is still 10 times net annual rental income. This translates into an average achievable yield of 10 %. With the S-Bahn extension, however, the parameters are likely to shift. In Strausberg, 54 kilometres from Berlin, the S-Bahn connection, which was introduced in 1948, has helped push the average multiplier up to 15.5 times net annual rental income. At the top end of the market, the price-to-rent ratio has even climbed as high as 25. In comparison: in Potsdam, the peak multiplier is 27.1, in Berlin it is 30 and more.

Eberswalde, which lies to the northeast of Berlin, is also increasingly coming under the influence of the German capital. After all, Berlin-Gesundbrunnen is only 30 minutes away by train. And the town with a population of just under 39,000, even has its own university of applied sciences. Other benefits: low rents and moderate property prices. For two years in succession, the city's population has been growing again for the first time since the fall of the Berlin Wall. The result: 597 new inhabitants.

Brandenburg an der Havel: Falling housing costs due to rising purchasing power

Brandenburg an der Havel, a distinctly urban town with a host of restaurants, cafés and even its own theatre, has attracted some 895 new inhabitants. The town's retail centrality score (GfK) of 116 is even higher than Berlin's (106.7). Purchasing power per household has also risen by 10.7 % over the past seven years – more than

in Strausberg or Nauen. And the cost of housing remains moderate, accounting for between 17 % and, at most, 22 % of household incomes. Eberswalde, Nauen and Strausberg have comparable housing cost burdens, of between 21 and 23 %. Despite the fact that rents have risen, the housing cost burden in Brandenburg and Eberswalde has declined over the past ten years. Unlike Berlin, Potsdam and Nauen. Strausberg has remained stable.

Berlin: High housing costs weigh on Berlin

In parts of Berlin-Charlottenburg, housing costs have come to represent a particularly heavy burden on households, swallowing up between 40 % and 44 % of household budgets. In just 2006, the district's housing cost burden averaged between 29 % and 30 %. In Friedrichshain – between Friedrichstraße and Spreeufer – the housing cost burden has climbed to as much as 46 %. And renters living near Checkpoint Charlie and the Jewish Museum quarter in the heart of East Berlin now have to budget 51 % of their household income for their housing – a rise of 20 percentage points within ten years. In Potsdam, the situation is more heterogeneous, ranging from 20 % to 31 %. But even in some cases housing has become proportionately less expensive: in the district Babelsberg, the share of income spent on housing costs has fallen from 30 % to 27 % as a result of rising purchasing power.

Outlook: Berlin and Potsdam will continue to be the stars of Eastern Germany's largest metropolitan region. Both cities continue to grow. But not everyone will be able to afford to live in the two cities. This makes more peripheral towns and communities, such as Strausberg, Nauen or Eberswalde, potential housing candidates. Here too, rents and purchase prices are rising – and offer good opportunities for investors. But price levels are generally much lower, which puts household budgets under far less strain than in the big city. ■

“The positive development of rental and purchase prices will continue at a somewhat more moderate pace.”

An interview with the housing market expert André Adami, Branch Manager at the real estate research company bulwiengesa AG in Berlin, about the positive development in Eastern Germany's housing markets, contrasting assessments and rental and purchase price trends.



Mr. Adami, all of the towns and cities surveyed in this study are attracting new residents. In your opinion, what impact will this have on residential property markets in future?

In recent years, these cities have benefited not only from the influx of foreign immigrants, but also from rural migration trends. Young people in particular are moving to Eastern German cities to train and study. What is new is that they will find jobs in the region afterwards, so there is no need to move away to the old federal states. This trend is sustainable and is likely to pick up in the coming years.

Which of the study's results surprised you?

It was astonishing that these positive developments are already observable in small towns such as Freiberg and Waren. With regard to specific figures on rental and purchase price trends, bulwiengesa's assessment is slightly different. For example, according to our data and analyses, we have a somewhat more positive view of developments in Rostock. In our opinion, the Hanseatic city is one of the most sought-after cities in Eastern Germany.

Towns on the outskirts of Berlin, such as Nauen and Strausberg, are benefiting from the capital's boom. How do you see the further development here?

On its own, Berlin will not be able to satisfy the growing demand for housing in the coming years. Due to the lack

of inner-city building land, a growing number of developers are already investing in the surrounding areas and in the commuter belt, for example in Potsdam, Schönefeld and Königs Wusterhausen. In the long term, any cities, towns and municipalities with very good public transport links and fast connections to Berlin will benefit from the capital's growth.

Rental and purchase prices are now rising in many of the cities and towns surveyed. A sustainable trend?

Economic and income growth in the burgeoning cities of the new federal states is proving to be sustainable. As a result, more money can and will be spent on attractive housing. Nevertheless, the positive development of rental and purchase prices will continue at a somewhat more moderate level than in previous years.

Despite rising rents, the housing cost burden has actually fallen in many cities. This is mainly due to a strong increase in purchasing power and falling unemployment. How do you think this will affect the rental markets?

The rental housing market will continue to differentiate, both in terms of supply and demand. There will still be a market for basic, possibly even unrenovated apartments, alongside newly renovated, historical stucco buildings and barrier-free new buildings with air conditioning.

The purchase price-to-rent multipliers for multi-family houses have also risen sharply – in many places, these have already climbed to 20 times net annual rental income. Has the market peaked yet? Where do you still see room for growth?

Purchase price multipliers have risen to a record level due to low interest rates and the paucity of other investment products. Multipliers will only fall again if interest rates move sustainably higher. For the next two to three years, bulwiengesa expects prices to level off; positive exceptions will be cities such as Potsdam and Leipzig, where significant structural changes are to be expected. ■

Economic and Demographic Key Data

■ Rental prices in EUR/sqm
(H1 2016 median, Wüest Partner Deutschland)

■ Vacancy rate 2015 in %
(Source see methodology)

Sachsen-
Anhalt

Sachsen

Demographics

City	Population 31.12.2015	Population develop- ment Δ 2013-2015	Households 2016/2017	Household development Δ 2015/16-2016/17	Net migration 2015
Leipzig	560,472	5.4% ↑	328,183	7.9% ↑	15,347
Halle	236,991	2.3% ↑	135,909	6.4% ↑	5,243
Magdeburg	235,723	2.0% ↑	133,450	4.8% ↑	4,022
Dessau-Roßlau	82,919	-0.8% →	44,062	0.5% →	548
Merseburg	34,052	1.9% ↑	17,704	6.0% ↑	961

Source: GfK, Statistics of the state offices of the federal states and Internet sites of the cities

Purchasing Power

City	Household purchasing power 2017 (D = 100)	Household purchasing power Δ 2010-2017	Housing cost burden 2017	Housing cost burden Δ 2006-2017 in %-Points
Leipzig	73.3	20.8% ↑	22.9%	-0.1 →
Halle	72.3	11.3% ↑	21.6%	-0.9 →
Magdeburg	76.9	18.2% ↑	20.7%	1.1 →
Dessau-Roßlau	80.7	18.3% ↑	20.4%	-1.7 →
Merseburg	79.7	17.7% ↑	19.2%	-3.7 →

Source: GfK, Wüest Partner Germany

Labour Market

City	Unemployment rate 2016	Unemployment rate Δ 2010-2016	Employment subject to social security contributions Δ 2011-2016	Net commuter flow 2016 (inward minus outward commuters)
Leipzig	8.80	-28.61% ↓	18.4% ↑	37,179
Halle	10.80	-16.99% ↓	3.4% ↑	11,910
Magdeburg	10.50	-13.58% ↓	2.6% ↑	17,995
Dessau-Roßlau	10.20	-26.75% ↓	-1.9% →	3,196
Merseburg	8.40	-15.96% ↓	57.4% ↑	1,420

Source: Statistics Federal Labour Office

Highflyers in Saxony, good performers in Saxony-Anhalt

Leipzig is a demographic superstar. Thanks to its dynamic population growth, the city's ongoing boom has seen it overtake all other cities in the region. Away from the spotlight, Halle, Magdeburg, Dessau-Roßlau and Merseburg are also doing well: more households, stable rents and rising property prices.

Leipzig may be over 1,000 years old, but the city is more youthful and dynamic than ever before. Other cities are clearly wondering just how they can replicate what Leipzig has achieved, and not just in the city's home region of Saxony. Germany's tenth-largest city is almost universally regarded as a shooting star: Its population is growing, its economy is booming, and its citizens' purchasing power is rising steadily. "Leibz'sch" stands for everything other cities can only dream of. With positive net migration of more than 15,000 people in 2015, no other Eastern German city attracted as many new inhabitants as Leipzig. The only exception is Berlin, with a net migration balance of 41,000, which is effectively playing in a league of its own.

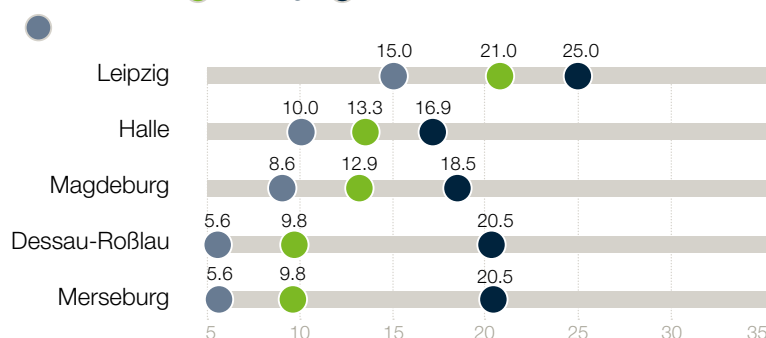
Leipzig: Jobs and quality of life

What makes Leipzig so irresistible? Firstly, several commercial giants have settled here, including Porsche and BMW, DHL, Amazon and eBay. The city's university delivers a pool of skilled, young workers – who tend to stay in the city for the long term. The city is also getting younger and younger. The population's average age has dropped by precisely one year since 2011 – from 43.8 to 42.8 years. This has been driven by an increase in the number of children and young people in the city, a result of the fact that many of the new arrivals are young families. In the space of just ten years, the number of under-six-year-olds rose by 50 % to 35,000, while the number of six- to 15-year-olds rose by 53.9 % to 39,300.

Unemployment in Leipzig has fallen by around 29 % since 2010, reaching a low of 8.8 % in 2016. There are jobs – and

Multipliers

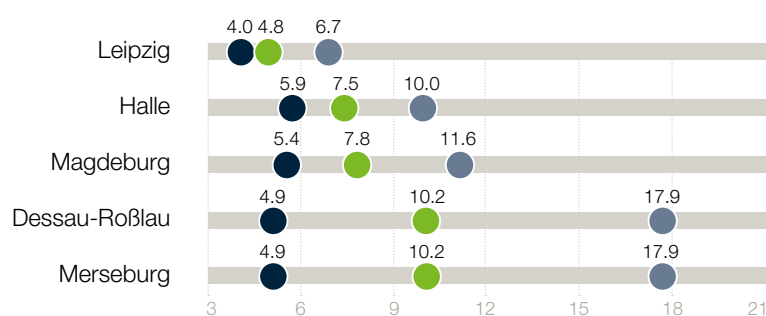
= minimum ● = average ● = maximum



Source: Real estate market reports, Wüest Partner Germany, Database: 2017, (Leipzig 2016)

Gross Yields

in % ● = minimum ● = average ● = maximum



Source: Real estate market reports, Wüest Partner Germany, Database: 2017, (Leipzig 2016)

Transaction Market

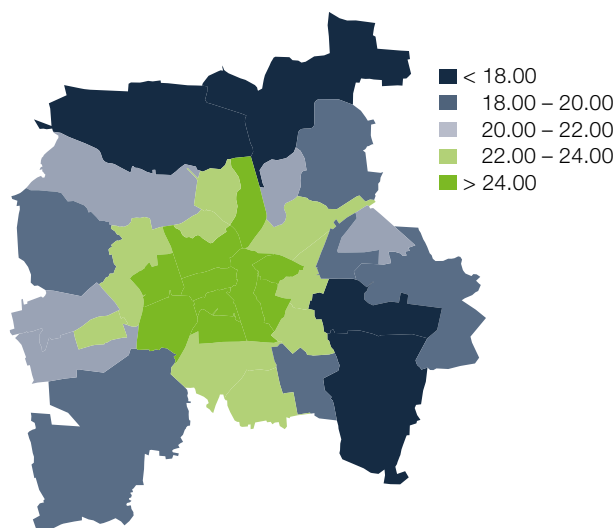
City	Housing 2016 in € millions
Leipzig	2,902
Halle	536
Magdeburg	567
Dessau-Roßlau	103
Merseburg	193

Source: Real estate market reports

The transaction volume includes developed land (bB), undeveloped building land (uB) and residential and partial ownership (WE/TE) Merseburg: in relation to the county of Saale

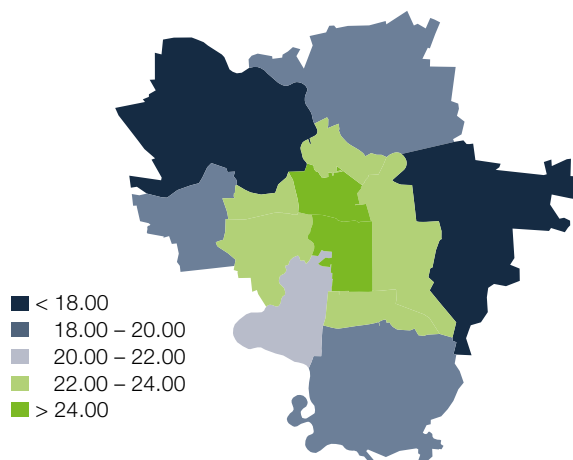
Leipzig

Median housing cost burden in 2017 in %



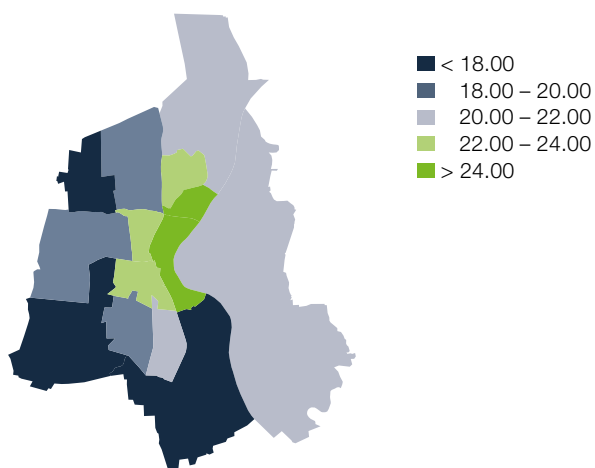
Halle

Median housing cost burden in 2017 in %



Magdeburg

Median housing cost burden in 2017 in %



apartments are vacant, while rents average EUR 6.25/sqm, and apartments are available for EUR 1,381/sqm (existing buildings) – an increase of 33 % over the last five years. At an average of 22.9 %, however, the housing cost burden remains comparatively low and has not changed since 2012, despite rental price increases of 25 %.

Saxony-Anhalt: Halle reaps the benefits of Leipzig's boom

In Saxony-Anhalt (Halle, Magdeburg, Dessau-Roßlau, Merseburg), however, housing cost burdens are lower still, averaging between 19.2 % and 21.6 %. In general, in a majority of residential districts in these cities, the burden has actually fallen over the past ten years – despite the fact that rents have been rising. This is a reflection of a concurrent increase in household purchasing power. In the state capital, tenants are currently paying an average of EUR 5.76/sqm – 3 % more than in the first half of 2016. Between 2012 and 2017, rents rose by almost 14 %. In Dessau-Roßlau (EUR 5.38/sqm) and Merseburg (EUR 5.23/sqm), the median rent is also well below EUR 6.00/sqm. This shows that in view of the growing number of households, there is potential for further rent increases. Located just outside Leipzig, Merseburg has become an attractive housing option, a trend that has pushed prices for newly constructed residential property up by 38 % over the past five years. Prices per square metre in Merseburg have now risen to EUR 1,762/sqm (new-build). Also Halle has experienced similar dramatic price jumps, with current buyers paying an average of EUR 2,230/sqm in the new-build segment (+31.5 % compared with 2012). Over the same period, prices for newly built apartments in Magdeburg have risen by 7 % to an average of EUR 2,305/sqm.

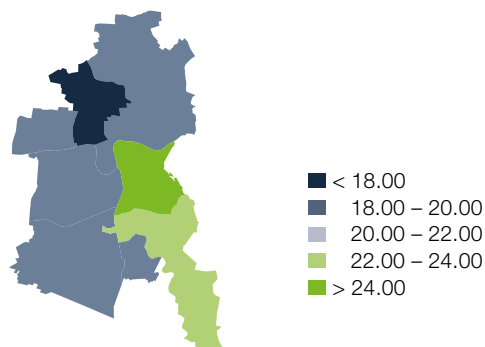
an attractive quality of life. According to a study by the Cologne Institute for Retail Research, Leipzig scored top marks for “ambience and flair”. When choosing where they want to live, high quality of life is an important factor for young people in particular. Leipzig's rude health has had a significant impact on population forecasts: The Federal Statistical Office expects the city's population to swell to 720,000 inhabitants by 2030, from 560,000 today.

Housing costs at a low level

Leipzig's resurgence is also likely to have a greater impact on the local housing market in future than has so far been the case. Rents are expected to rise, as are property purchase prices. At the moment, only 5.3 % of all

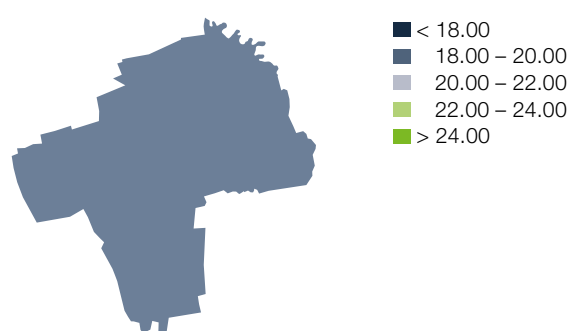
Dessau-Roßlau

Median housing cost burden in 2017 in %



Merseburg

Median housing cost burden in 2017 in %



Dessau/ Merseburg: Prices are rising again

Prices for residential property in Dessau-Roßlau may have suffered setbacks since 2012, but they have also been rising again more recently. However, with previously-owned apartments now costing an average of EUR 744 EUR/sqm and EUR 783/sqm respectively, prices in Dessau-Roßlau and Merseburg remain well below the EUR 1,000/sqm mark. The extremely wide range of purchase price-to-rent multipliers, from 5.6 at the bottom of the market to 20.5 at the top, reflects the varying quality of the properties on the market – along with the breadth of investment opportunities and risks. Strong purchasing power growth of 17.7 % and 18.3 % since 2010 speaks for the future of these two mid-sized towns, as

does growth in the number of households. Merseburg alone has gained 6 % more households since 2015/16. In particular, large numbers of elderly people from the surrounding areas are attracted to these larger towns because they find more attractive housing offers tailored to their needs. In Merseburg, just 6 % of apartments are vacant; in Dessau-Roßlau, the figure is 10 %.

Outlook: Leipzig is set to enjoy continued rapid growth. Magdeburg and Halle are also developing positively because, in some markets, rental and property purchase prices are rising significantly. Even Dessau-Roßlau and Merseburg are experiencing a minor renaissance, benefiting from both the influx of older people and the growing number of foreign citizens

Rental prices

	Rents in EUR/sqm	Rents in EUR/sqm	Rents in EUR/sqm	Change
City	2012	H1 2016	H1 2017	Δ 2012-2017 (H1)
Leipzig	5.00	6.08	6.25	25.0 % ↑
Halle	5.28	5.78	5.89	11.4 % ↑
Magdeburg	5.06	5.59	5.76	13.9 % ↑
Dessau-Roßlau	5.09	5.33	5.38	5.8 % ↑
Merseburg	5.00	5.19	5.23	4.6 % ↑

Source: Wüest Partner Germany based on immodaten.net; Median prices

Purchase prices

	Purchase prices, EUR/sqm	Change	Purchase prices, EUR/sqm	Change
City	absolute H1 2017 new-build	Δ 2012-2017 (H1)	abs. H1 2017 exist. buildings	Δ 2012-2017 (H1)
Leipzig	3,349	45.6 % ↑	1,381	32.6 % ↑
Halle	2,231	31.5 % ↑	1,111	11.1 % ↑
Magdeburg	2,305	7.0 % ↑	1,012	17.2 % ↑
Dessau-Roßlau	1,583	36.0 % ↑	744	-10.7 % ↓
Merseburg	1,762	38.1 % ↑	783	23.6 % ↑

Source: Wüest Partner Germany based on immodaten.net; Median prices

Economic and Demographic Key Data



Demographics

City	Population 31.12.2015	Population development Δ 2013-2015	Households 2016/2017	Household development Δ 2015/16-2016/17	Net migration 2015
Dresden	543,825	2.5%	303,140	4.2%	6,686
Cottbus	99,687	0.1%	57,752	0.0%	700
Görlitz	55,255	2.2%	30,661	5.8%	1,401

Source: GfK, Statistics of the state offices of the federal states and Internet sites of the cities

Purchasing Power

City	Household purchasing power 2017 (D = 100)	Household purchasing power Δ 2010-2017	Housing cost burden 2017	Housing cost burden Δ 2006-2017 in %-Points
Dresden	80.7	17.0%	23.2%	0.9
Cottbus	74.8	16.5%	21.3%	-0.8
Görlitz	70.0	15.0%	20.5%	-0.5

Source: GfK, Wüest Partner Germany

Labour Market

City	Unemployment rate 2016	Unemployment rate Δ 2010-2016	Employment subject to social security contributions Δ 2011-2016	Net commuter flow 2016 (inward minus outward commuters)
Dresden	7.30	-29.16%	9.8%	37,876
Cottbus	9.40	-29.69%	-0.7%	9,124
Görlitz	10.10	-20.45%	9.7%	4,287

Source: Statistics Federal Labour Office

Enduring and late bloomer in the Free State

Dresden continues its triumphant rise. Cottbus and Görlitz are also growing and have been able to attract more inhabitants. What's more, they offer stable, affordable rents and purchase prices, and an urban environment that makes it possible to acquire attractive residential property.

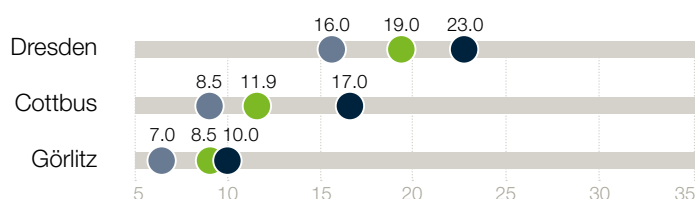
The city on the Elbe is an enduring role model for the region. The economy is booming, the population is growing, household purchasing power is rising – and housing vacancies are falling steadily. At present, there is only a stubborn reserve of 2.0 %. This situation has, naturally, had an impact on the housing market. The city is slowly becoming crowded. The city's authorities have announced a new housing construction programme, and will soon start planning an extra 800 apartments, primarily in the affordable housing segment. On average, Dresden's renters are already paying EUR 7.30/sqm – only Jena, Potsdam and Berlin are more expensive. The same applies to apartment prices, which have risen to an average of EUR 3,077/sqm for new-builds, establishing Dresden as one of the most expensive cities in Eastern Germany. This is also reflected in the purchase price-to-rent multipliers for apartment buildings in Saxony's capital city, which have climbed to between 16 and 23 times net annual rental income.

Dresden's housing cost burden remains comparatively low

Thankfully, the people of Dresden can afford higher rental prices. In February 2016, the average household had a monthly net income of EUR 2,090 – 1 % more than in 2014. As a result, the cost of housing only accounts for an average of 23 % of household expenditure. Even in the centre of the city, the figure is no more than 30 %. Berlin's households are already spending 40 % to 50 % of their incomes in comparably good residential areas. For investors, the city that prides itself to have Eastern Germany's only "Exzellenz-Hochschule" offers considerable potential.

Multipliers

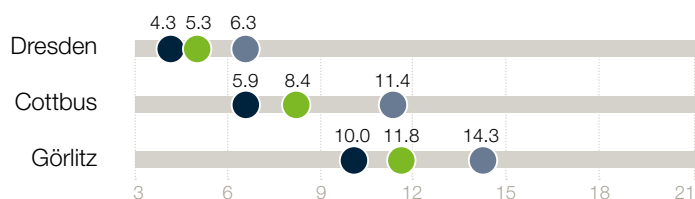
● = minimum ● = average ● = maximum



Source: Real estate market reports, Wüest Partner Germany, Database: 2015, (Cottbus 2016)

Gross Yields

in % ● = minimum ● = average ● = maximum



Source: Real estate market reports, Wüest Partner Germany, Database: 2015, (Cottbus 2016)

Transaction Market

City	Housing 2016 in € millions
Dresden	1,955
Cottbus*	94
Görlitz**	154

*2015 **2014

Source: Real estate market reports

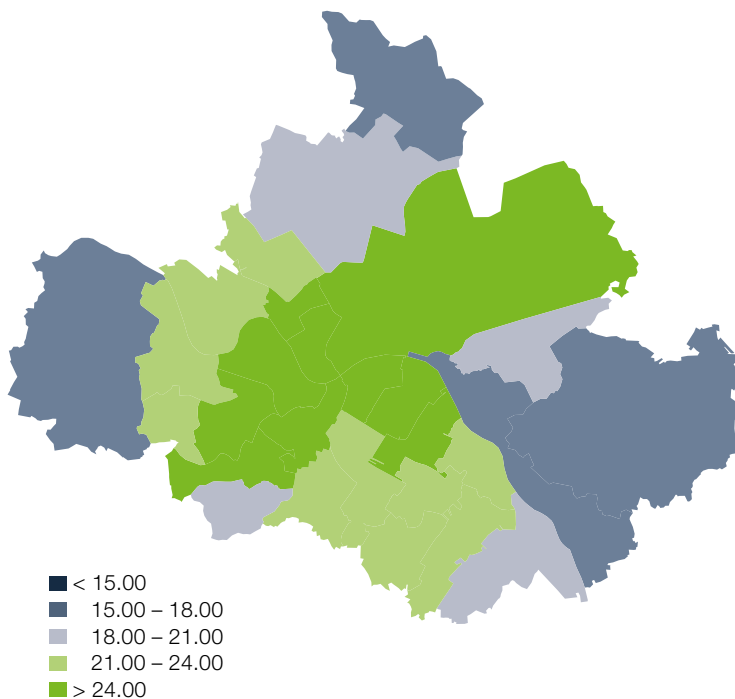
The transaction volume includes developed land (bB), undeveloped building land (uB) and residential and partial ownership (WE/TE)



Dresden, Haenel-Clauß-Straße

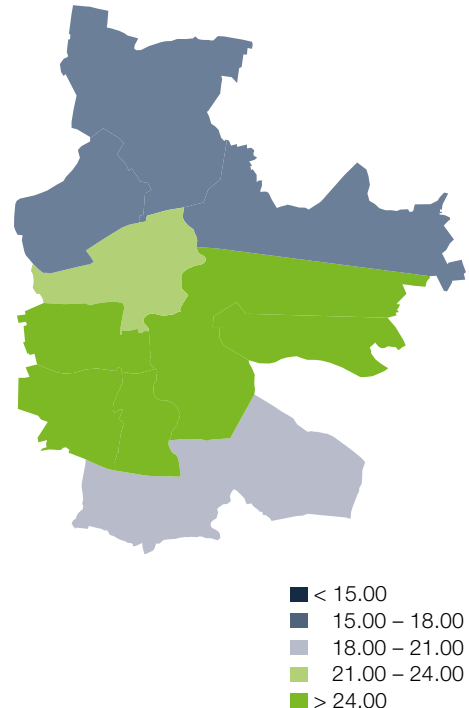
Dresden

Median housing cost burden in 2017 in %



Cottbus

Median housing cost burden in 2017 in %



Cottbus and Görlitz continue to gain attractiveness

More adventurous investors will find what they are looking for in Görlitz or Cottbus. Here, apartment buildings at the top end of the market are trading at multipliers of 17 times (Cottbus) or even just 10 times (Görlitz) net annual rental income. Returns thus average 8.4 % and

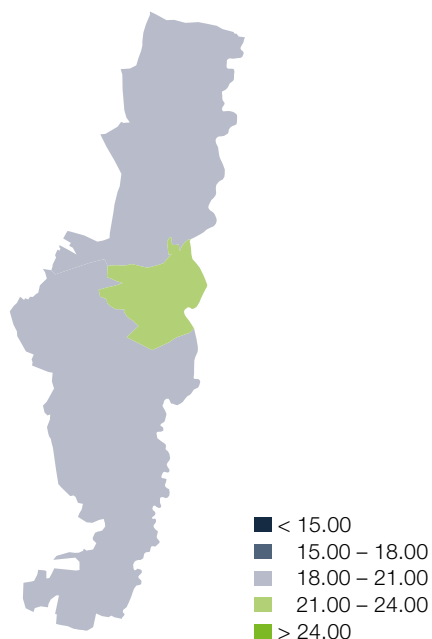
11.8 %, respectively. Both cities are by no means poor performers. Rents have been stable or rising moderately for years. In Cottbus, rents now average EUR 5.57/sqm; in Görlitz, rental prices have held steady at an average of EUR 4.73/sqm since 2016 – following an 9 % increase between 2012 and 2017. Cottbus registered an increase of 8.8 % over the same period. In both cases, rents are expected to increase further as the Lausitz region continues to post positive growth: Since the end of last year, Cottbus has regained its status as a major city, and its population has grown to over 100,000, thanks to an influx of migrants and students. Görlitz already delivered positive net migration in 2015: 1,400 new citizens arrived in the border town on the Neiße – mainly from Hesse. Görlitz is extremely popular with Western German pensioners. It was not until the end of 2016 that the last so-called “try before you move” programme came to an end. This programme allowed people from other German regions, and from abroad, to live in central Görlitz for one week free of charge. Half of the participants were at least 60 years old and came from a major city. The conclusion: 80 % of the trial residents said that they could easily imagine moving to Görlitz; most of them thought that the old trading town was “very hospitable and clean” and its proximity to the Polish neighbouring town of Zgorzelec was “particularly attractive”. The popularity of Görlitz is also reflected in the following numbers: by 2016, the number of employees subject to social security contributions had also risen



Senftenberg, Ernst-Thälmann-Straße

Görlitz

Median housing cost burden in 2017 in %



Görlitz, Königshufen

by 9.7 % within just five years. Even property purchase prices have taken a huge leap forward. In the first half of 2017, prices averaged EUR 1,883/sqm (new-build) and EUR 686/sqm (existing buildings). Looking back over the past five years, prices for existing buildings have risen by as much as 39 % – more than twice the rate of increase in Dresden and many times higher than in Cottbus. However, at EUR 1,208/sqm (existing buildings), the price per square metre in Cottbus is more than twice as high.

Outlook: Dresden has long been one of the biggest winners of German reunification and is widely regarded as one of the most promising cities in Germany. The conditions for investments in the housing sector are therefore attractive even if the achievable returns are still moderate. Cottbus and Görlitz are also developing more positively than once predicted. More inhabitants means additional demand for apartments. As a result, vacancy rates are falling, and rents and purchase prices are rising. ■

Rental prices

	Rents in EUR/sqm	Rents in EUR/sqm	Rents in EUR/sqm	Change
City	2012	H1 2016	H1 2017	Δ 2012-2017 (H1)
Dresden	6.25	7.14	7.30	16.7 % ↑
Cottbus	5.13	5.52	5.57	8.8 % ↑
Görlitz	4.34	4.73	4.73	9.0 % ↑

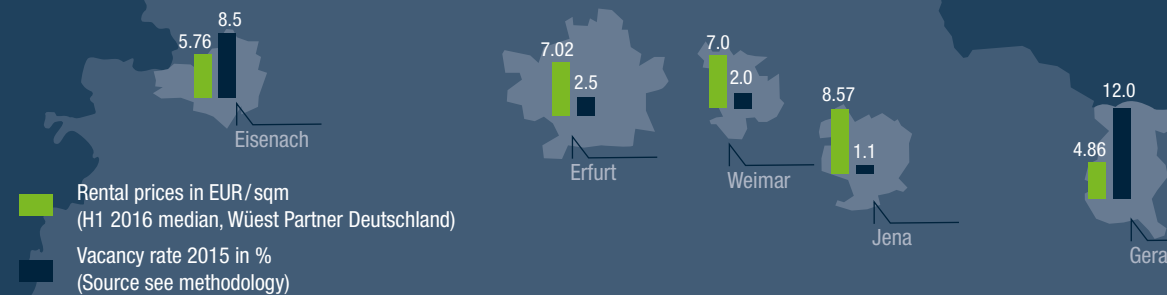
Source: Wüest Partner Germany based on immodaten.net; Median prices

Purchase prices

	Purchase prices, EUR/sqm	Change	Purchase prices, EUR/sqm	Change
City	absolute H1 2017 new-build	Δ 2012-2017 (H1)	abs. H1 2017 exist. buildings	Δ 2012-2017 (H1)
Dresden	3,077	25.6 % ↑	1,755	16.7 % ↗
Cottbus	2,042	19.2 % ↗	1,208	4.1 % →
Görlitz	1,883	24.9 % ↑	686	38.7 % ↑

Source: Wüest Partner Germany based on immodaten.net; Median prices

Economic and Demographic Key Data



Thüringen

Demographics

City	Population 31.12.2015	Population development Δ 2013-2015	Households 2016/2017	Household development Δ 2015/16-2016/17	Net migration 2015
Erfurt	210,118	2.6% ↑	110,073	4.3% ↑	4,068
Jena	109,527	1.7% ↗	61,916	3.0% ↗	1,224
Gera	96,011	1.1% ↗	55,114	3.7% ↗	2,173
Weimar	64,131	1.3% ↗	35,305	3.4% ↗	870
Eisenach	42,417	2.0% ↑	23,247	3.8% ↗	757

Source: GfK, Statistics of the state offices of the federal states and Internet sites of the cities

Purchasing Power

City	Household purchasing power 2017 (D = 100)	Household purchasing power Δ 2010-2017	Housing cost burden 2017	Housing cost burden Δ 2006-2017 in %-Points
Erfurt	85.9	25.6% ↑	21.6%	-0.3 ↗
Jena	79.4	11.1% ↑	26.6%	1.5 ↗
Gera	74.1	11.8% ↑	19.2%	-0.8 ↗
Weimar	77.8	17.1% ↑	24.9%	1.0 ↗
Eisenach	79.2	14.4% ↑	21.0%	-0.1 ↗

Source: GfK, Wüest Partner Germany

Labour Market

City	Unemployment rate 2016	Unemployment rate Δ 2010-2016	Employment subject to social security contributions Δ 2011-2016	Net commuter flow 2016 (inward minus outward commuters)
Erfurt	7.50	-26.51% ↓	6.3% ↗	26,655
Jena	6.60	-13.13% ↓	7.7% ↗	14,603
Gera	9.90	-31.30% ↓	0.3% ↗	1,861
Weimar	7.30	-34.75% ↓	2.9% ↗	1,189
Eisenach	7.70	-25.63% ↓	6.5% ↗	6,980

Source: Statistics Federal Labour Office

Surging demand for housing

Thuringia is well prepared for the future. Over the past 15 years, vacancy rates in the state's largest cities have plummeted as very few new apartments have been built and sections of the existing housing stock have been demolished. Housing markets have become more dynamic as population growth has gained momentum – rental and purchase prices have maintained their upward trajectory. At the same time, Plattenbauten, i.e. prefabricated, concrete apartment buildings, remain a reasonably priced option for many people.

Thuringia's regional centres are currently benefiting from accelerated population growth. In the free state's largest cities, namely Erfurt, Jena, Gera, Weimar and Eisenach, the number of households increased by between 3.7 % (Gera) and 4.3 % (Erfurt) from 2015 to 2017. With subdued housing construction activity in recent years, vacancy rates in Erfurt, Jena and Weimar now stand at between 1.1 % and 2.5 %. No wonder, then, that in many places rental and purchase prices are rising. In particular Erfurt, the state capital, is experiencing sustained growth, which has led to a surge in demand for new living space.

The municipal housing association, Kowo, has even announced plans to restart the construction of prefabricated housing. Kowo aims to construct 300 modern prefabricated housing units in the north of the city by 2021, a number of which will be developed for the social housing sector.

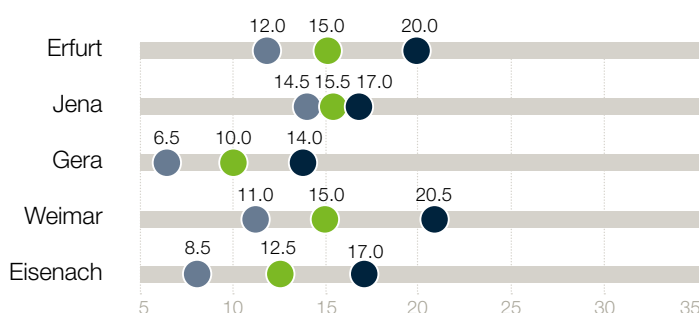
Erfurt: Economic growth boosts housing markets

Erfurt is growing and needs more living space. In 2015 alone, more than 4,000 people made Erfurt their new home and helped to drive vacancy rates in the city down to 2.5 %. Some 14,000 companies, large numbers of which are active in heavy machinery and plant construction, the media and creative industries, horticulture, the food industry, micro-technology and the manufacture of photovoltaic equipment, are all making a contribution to healthy economic growth. Between 2010 and 2016, Erfurt's unemployment rate has been cut from a staggering 26.5 % to just 7.5 %.

Weimar, Gera and Eisenach have

Multipliers

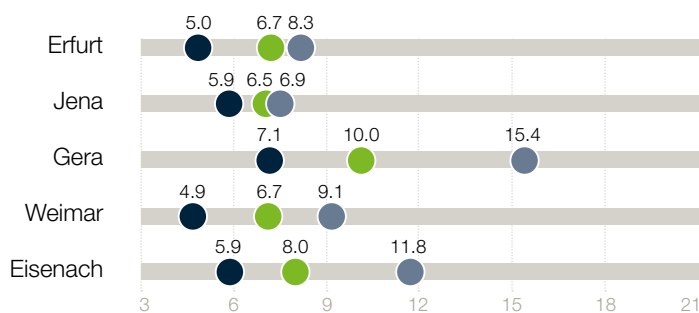
● = minimum ● = average ● = maximum



Source: Real estate market reports, Wüest Partner Germany, Database: 2016/2017

Gross Yields

in % ● = minimum ● = average ● = maximum



Source: Real estate market reports, Wüest Partner Germany, Database: 2016/2017

Transaction Market

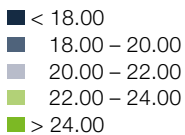
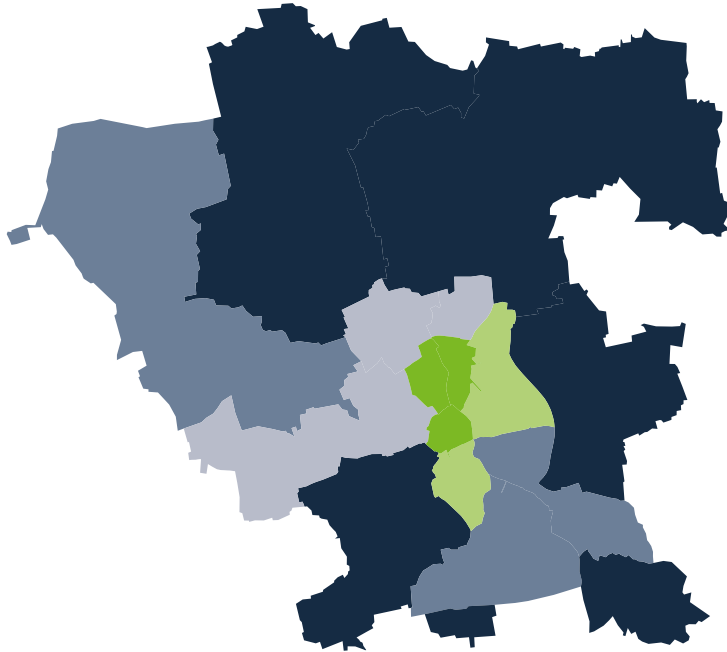
City	Housing 2016 in € millions
Erfurt	441
Jena	212
Gera	105
Weimar	121
Eisenach	58

Source: Real estate market reports

The transaction volume includes developed land (bB), undeveloped building land (uB) and residential and partial ownership (WE/TE)

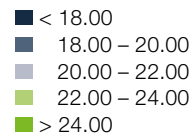
Erfurt

Median housing cost burden in 2017 in %



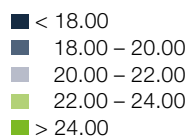
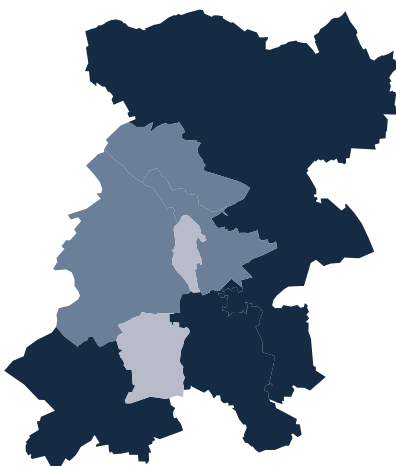
Jena

Median housing cost burden in 2017 in %



Gera

Median housing cost burden in 2017 in %



achieved similar feats. Although Jena's unemployment rate was never quite so high, 13 % of the city's population were without jobs. In the space of just five years, Jena has successfully turned things around and has increased the number of jobs subject to social security contributions by 7.7 %. Eisenach and Erfurt have also experienced strong gains, of 6.5 % and 6.3 % respectively.

Fewer vacancies in Weimar, Gera and Eisenach

The advances outlined above have had a noticeable impact on Thuringia's local housing markets. Vacancy rates are falling everywhere: Just 2 % of Weimar's housing stock is currently unoccupied, while even Gera and Eisenach show positive tendencies.

Jena: Most expensive city, but only small rental increases

Thanks to strong economic growth, the rental housing market in Jena, most famous for its University city and research hub, is even tighter than in Erfurt. Only



Weimar, Humboldtstraße



Erfurt, Katzenberg

1.1 % of Jena's rental apartments are currently unlet, despite the fact that 3.2 new apartments per 1,000 inhabitants are being built each year (2009 to 2015), the highest figure anywhere in Thuringia (Federal Statistical Office). Rents in Jena are higher than in any other city in Eastern Germany, at EUR 8.57/sqm (excluding Berlin and Potsdam), while rents average EUR 7.00/sqm in Weimar and Erfurt, EUR 5.76/sqm in Eisenach, and EUR 4.86/sqm in Gera. Jena may be the most expensive city in the region, but rental prices have hardly increased at all recently (+0.6 %). The city has apparently reached the limit as far as the housing cost burden is

concerned. In contrast, the situation is quite different in Erfurt, where rental prices have increased by 10.5 % (2011 to 2017), in Eisenach, with rental prices up by as much as 11 %, and in Weimar, which has experienced increases of 7 %.

With the highest housing cost burden, Jena also ranks first among the region's cities. At 26.6 %, only households in Berlin and Potsdam face higher housing costs as a proportion of household income. Nevertheless, the housing cost burden in Jena has only risen by 1.5 % over the previous ten years. In contrast, tenants in Berlin have faced a 7.5 % increase.

Rental prices

	Rents in EUR/sqm	Rents in EUR/sqm	Rents in EUR/sqm	Change
City	2012	H1 2016	H1 2017	Δ 2012-2017 (H1)
Erfurt	6.35	6.96	7.02	10.5 % ↑
Jena	8.52	8.47	8.57	0.6 % →
Gera	4.69	4.76	4.86	3.6 % ↗
Weimar	6.57	7.02	7.00	6.6 % ↑
Eisenach	5.18	5.60	5.76	11.1 % ↑

Source: Wüest Partner Germany based on immodaten.net; Median prices

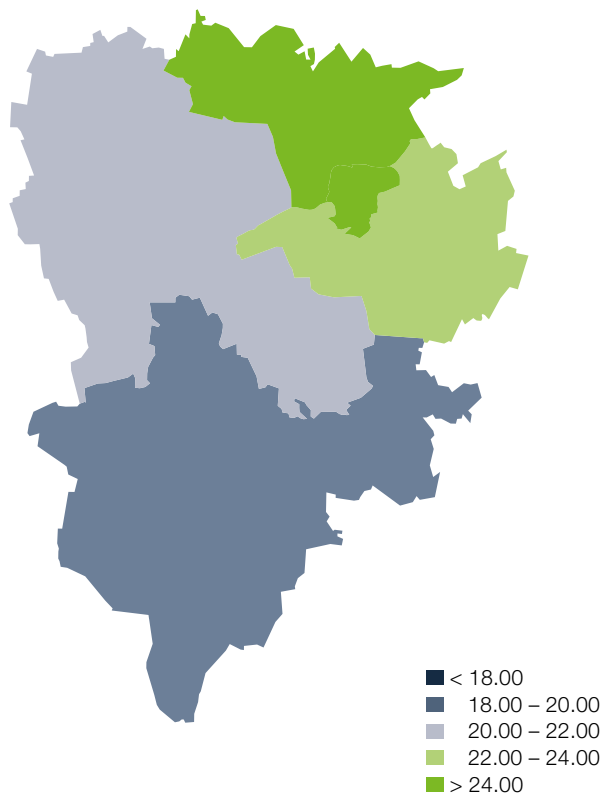
Purchase prices

	Purchase prices, EUR/sqm	Change	Purchase prices, EUR/sqm	Change
City	absolute H1 2017 new-build	Δ 2012-2017 (H1)	abs. H1 2017 exist. buildings	Δ 2012-2017 (H1)
Erfurt	2,571	16.4 % ↗	1,534	12.8 % ↗
Jena	2,755	27.5 % ↑	1,978	13.6 % ↗
Gera	2,217	71.4 % ↑	607	-0.4 % →
Weimar	2,371	25.1 % ↑	1,489	6.0 % →
Eisenach	2,013	108.6 % ↑	1,095	13.4 % ↗

Source: Wüest Partner Germany based on immodaten.net; Median prices

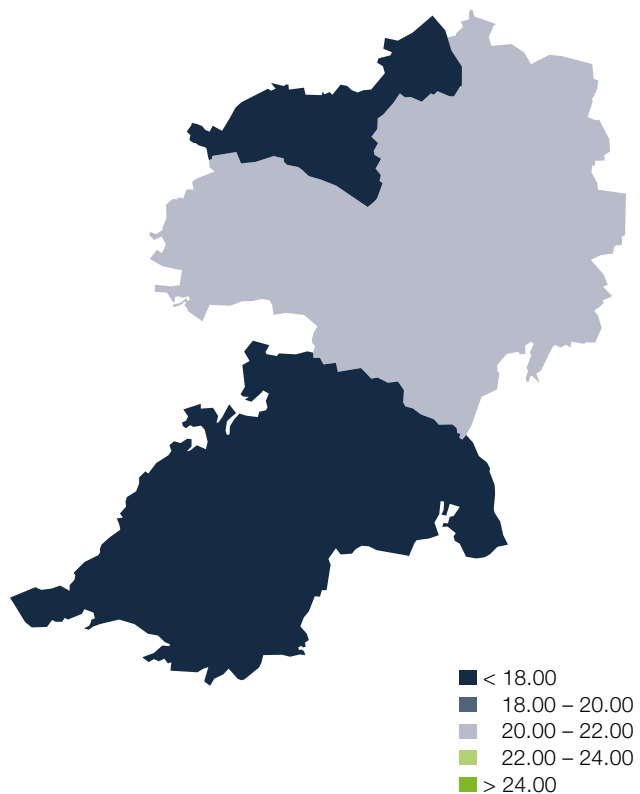
Weimar

Median housing cost burden in 2017 in %



Eisenach

Median housing cost burden in 2017 in %



In Weimar, households spend 25 % of their incomes on housing, a much higher proportion than in Erfurt, Gera and Eisenach. Nevertheless, the housing cost burden in Weimar has only risen by a paltry 1 % this decade. Gera, Eisenach and Erfurt remain comparatively affordable places to live, with housing costs accounting for between 19 % and 21.6 % of household budgets.

Eisenach: Purchase prices for apartment buildings have doubled

The cost of homeownership has followed a similar trajectory. Across the board, square metre prices in the new-build sector are above the EUR 2,000 mark – Jena leads the way at EUR 2,800/sqm. As with rental prices, purchase prices are largely consistent. Eisenach, however, has seen the largest price jump of all as prices for new-build apartments have risen by more than 100 % over the past five years. In Eisenach, residential investment property in prime locations and in top condition is currently changing hands at 17 times annual net rental income, the same as in Jena. On average, apartment buildings in the region cost between 10 and 15 times annual rental income and average yields vary between 6.5 % and 10 %. Head-

ing the pack, Gera offers the highest returns at 15.4 % – with corresponding risk. In addition to TAG, which manages approximately 7,000 residential units in Gera, the capital management company Benson Elliot is also investing heavily in the future of the birthplace of Otto Dix. In 2016, the London-based private equity real-estate fund managers invested in GWB and, as the housing company's majority shareholders, want to successively modernise the stock of more than 6,700 residential units. These freshly renovated apartments are sorely needed, especially as the population of this independent city in East Thuringia grew by 1.1 % to approximately 96,000 between 2013 and 2015.

Outlook: Demographic trends seem to hold less in store for the Erfurt/Jena region than previously predicted. Rental and purchase prices are rising everywhere in response to the sustained economic upturn and the dramatic fall in unemployment rates. As vacancies have been systematically reduced, there is even a lack of housing in some markets, rather than a surplus. All of which combines to create new opportunities for investors.

“Education is a decisive location factor”

What is your assessment of the situation on Eastern Germany's housing markets today – more than a quarter of a century after German reunification?

In general, developments in the old and new federal states have increasingly converged. Whereas the 1990s were largely characterised by migration flows from east to west, nowadays these population movements hardly play a role. Rather, housing markets are now dominated primarily by migration to growth centres – and a corresponding outflow from other regions. This trend can be observed in both the old and the new federal states. These growth centres are, in many cases, metropolises and conurbations, but also include a whole series of medium-sized towns and cities that exert their own appeal.

In the 25 years since reunification, East Germany's economy has transitioned from a planned economy to a market economy. To what extent is this transformation process still relevant for housing markets in the new federal states today?

Transformation processes, and the structural changes that accompany them, often take a long time. For example, the Ruhr region has had to cope with declining coal and steel industries since the 1960s and 1970s, a process that is still ongoing to this day. The situation is similar in some regions of Eastern Germany, especially those that were dominated by industries that are obsolete today, or whose companies were not competitive on the international stage. In the meantime, however, the situation has become increasingly differentiated, which has also had an impact on the respective regional housing markets.

How and why has this differentiation arisen?

In some cases, attracting new companies has been a successful route to maintaining or “revitalising” old industrial sites in Eastern Germany. One such example is the concentration of the electronics industry in the Dresden area. In other cases, however, it has also been possible to completely redefine locations. Towns and cities with universities, technical colleges or other higher education institutions have a decisive advantage. The key phrase here is “value creation through knowledge”. Large numbers of innovative companies have settled in the vicinity of these facilities. These have gone on to be very successful in their respective market segments and have achieved sustainable growth. In this respect, education is becoming an increasingly decisive location factor.



Prof. Dr. Michael Voigtländer is Head of the Research Unit Financial and Real Estate Markets at the Cologne Institute for Economic Research e.V.

And what impact is this having on the housing markets in these towns and cities?

First of all, these locations are very popular among students. They frequently offer students more affordable accommodation, and the region's universities often provide students with a more conducive learning environment than can be found at the old federal states' overcrowded “mass universities”. In this respect, we have observed a noticeable influx of students from the old federal states, but also from abroad. Because new companies and new jobs are being created around these educational institutions, we see that the cities' populations as a whole are growing healthily. This is as true in Jena and Freiberg as it is in a number of the region's other cities, which may, at first glance, appear to be relatively small, but nevertheless are registering significant population growth.

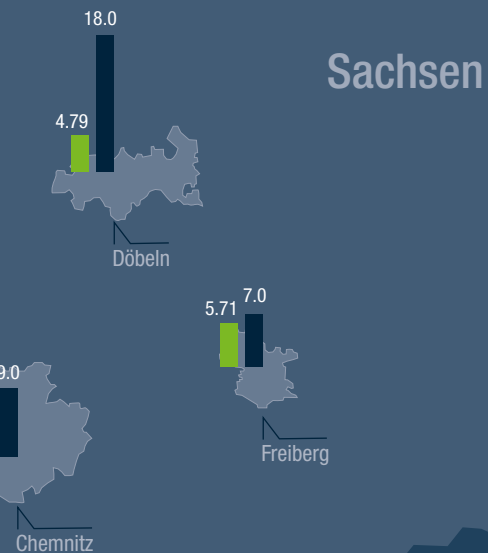
How has the arrival of refugees and asylum seekers affected Eastern Germany's housing markets?

This form of immigration – contrary to mainstream media perceptions – plays more of a secondary role. On the one hand, many of those who have been granted permission to stay in Germany for humanitarian reasons tend to view their long-term futures as being in their home countries, and will likely return as soon as conditions allow. On the other hand, those who have decided to stay in Germany permanently, or have arrived here as part of regular labour market migration, will only gradually become relevant for the housing markets and will then – like many others – primarily look for housing in major urban centres. ■

Economic and Demographic Key Data

■ Rental prices in EUR/sqm
(H1 2016 median, Wüest Partner Deutschland)

■ Vacancy rate 2015 in %
(Source see methodology)



Demographics

City	Population 31.12.2015	Population develop- ment Δ 2013-2015	Households 2016/2017	Household development Δ 2015/16-2016/17	Net migration 2015
Chemnitz	248,645	2.7% ↑	134,861	2.8% ↑	6,137
Freiberg	41,641	3.4% ↑	23,355	5.5% ↑	996
Döbeln	21,730	0.1% →	13,313	9.6% ↑	348

Source: GfK, Statistics of the state offices of the federal states and Internet sites of the cities

Purchasing Power

City	Household purchasing power 2017 (D = 100)	Household purchasing power Δ 2010-2017	Housing cost burden 2017	Housing cost burden Δ 2006-2017 in %-Points
Chemnitz	80.7	19.1% ↑	17.5%	-1.9 ↓
Freiberg	73.6	7.7% ↑	20.0%	-0.3 →
Döbeln	73.8	8.6% ↑	19.2%	-1.5 ↓

Source: GfK, Wüest Partner Germany

Labour Market

City	Unemployment rate 2016	Unemployment rate Δ 2010-2016	Employment subject to social security contributions Δ 2011-2016	Net commuter flow 2016 (inward minus outward commuters)
Chemnitz	8.40	-33.06% ↓	4.6% ↑	23,848
Freiberg	6.60	-3.10% ↓	-1.9% →	5,497
Döbeln	6.60	-33.42% ↓	3.8% ↑	534

Source: Statistics Federal Labour Office

Scoring points for the Saxons

Chemnitz, Freiberg and Döbeln may be geographically more provincial, but they are by no means backwaters. As university towns and centres for the development and production of innovative technologies, they are experiencing a true renaissance – with corresponding positive effects for local real estate markets.

The Saxon Construction Industry Association has warned that Chemnitz needs to work harder. In 2016, only 306 new apartments came onto the market – 28.2 % fewer than in the previous year. That's nowhere near enough according to representatives of the construction industry. In order to cope with the increasing number of inhabitants, at least 450 were required.

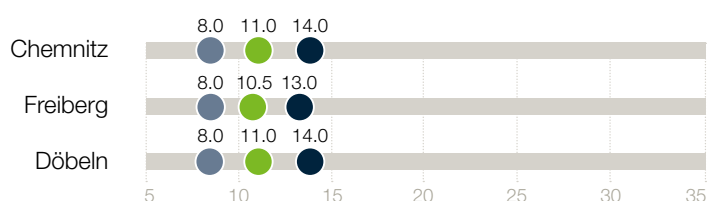
Strong SMEs and innovative capacity

Chemnitz has also benefited from the region's general economic upswing. By 2015, more than 6,000 people had moved to the southwest of Saxony, pushing the city's population back up towards the 250,000 threshold. And it's not only the city's world-class Technical University that is attracting large numbers of newcomers. The upward trend is also attributable to the numerous new jobs created by the university, mechanical and plant engineering, automotive and supply industries.

Small and medium-sized businesses are the foundation of Chemnitz's economic strength and that of the southwestern Saxony region as a whole. The close network of local and regional companies and scientific institutions has created an innovation-friendly environment and contributed to the region's classification as an "Innovation Leader". According to the European Commission's Innovation Scoreboard for 2016, southwest Saxony is one of the top 36 innovation leaders in Europe, out of a total of 214 regions. In Eastern Germany, only the regions of Dresden and Berlin were also included in this category. Compared with the last study, which was conducted in 2014, the innovative capacity of Chemnitz and its surroundings has continued to improve. Score one for the Saxons!

Multipliers

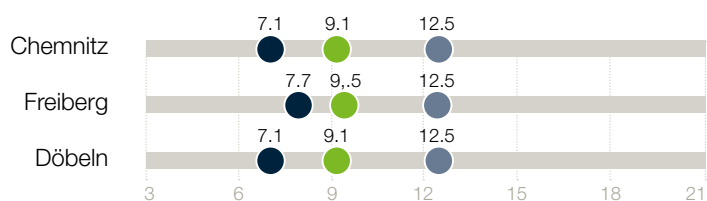
● = minimum ● = average ● = maximum



Source: Real estate market reports, Wüest Partner Germany, Database: 2015

Gross Yields

in % ● = minimum ● = average ● = maximum



Source: Real estate market reports, Wüest Partner Germany, Database: 2015

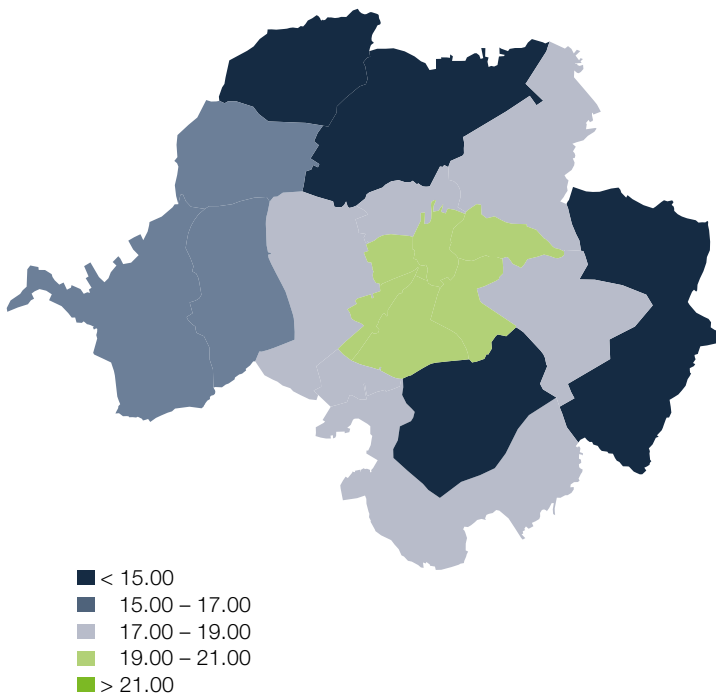
There is no transaction volume for this region from 2016 or 2015.



Chemnitz, Franz-Mehring-Straße

Chemnitz

Median housing cost burden in 2017 in %



Freiberg

Median housing cost burden in 2017 in %



Low housing costs and ever more households

The region's new arrivals not only find work, they also find affordable apartments. The average rent in Chemnitz is just over EUR 5.00/sqm. But Freiberg (EUR



Freiberg, Am Mühlenteich

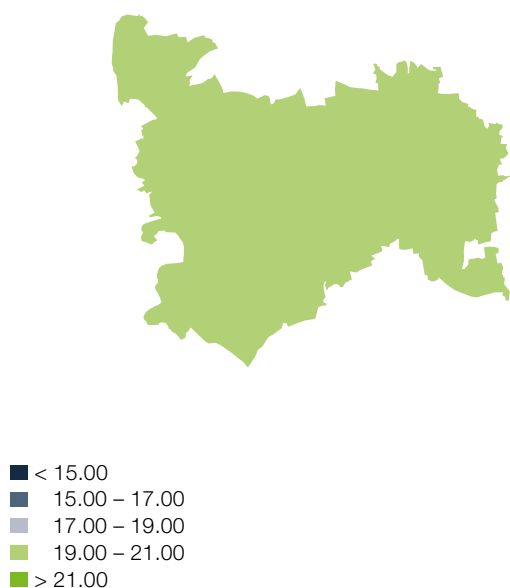
5.71/sqm) and Döbeln in Central Saxony (EUR 4.79/sqm) also boast housing for households with modest budgets. Housing costs account for only between 17.5 % and 20.0 % of household budgets in all three cities. The region is therefore the most affordable one analysed for this study. Young people and families with lower incomes can also afford to buy apartments here. In Chemnitz (EUR 768) and Döbeln (EUR 669), prices per square metre in existing buildings remain well below EUR 1,000; in Freiberg, with its mining academy, the average price stands at just EUR 1,058.

In the past five years alone, purchase prices have risen by almost 14 % (existing buildings); in Döbeln, in contrast, they rose by almost 8 %. In both cases, this is an indicator of the positive development of these two cities. Freiberg gained almost 1,000 new inhabitants in 2015 alone. The population of the entire administrative district of Central Saxony, which also includes Döbeln, grew by 1,769. More households means stronger demand for housing, a trend that will also have a positive impact on the future development of local housing and property markets.

Complaints of "horrendous" vacancies have now also been consigned to the past. With vacancies running at between 7 and 9 %, Chemnitz, Freiberg and Döbeln are now no worse off than Schwerin or Halle (Saale). As a result, all three centres have become increasingly

Döbeln

Median housing cost burden in 2017 in %



Döbeln, Meißener Straße

interesting for investors – especially as purchase price multipliers are lower here than anywhere else in the region. Apartment buildings are changing hands at 8 to 14 times net annual rental income and yields range from 7 to 12.5 %. The region's generally healthy economic development has created an attractive risk-return profile.

Outlook: The noticeable economic upswing in the Chem-

nitz region is creating jobs and driving demand for new housing. Young people, including many students and university employees, and skilled workers from the field of innovative technologies, are among the largest groups settling in the area. If they want to keep them, local authorities will have to make sure that the supply of modern housing continues to improve. ■

Rental prices

	Rents in EUR/sqm	Rents in EUR/sqm	Rents in EUR/sqm	Change
City	2012	H1 2016	H1 2017	Δ 2012-2017 (H1)
Chemnitz	4.82	5.00	5.02	4.1 ↗
Freiberg	5.53	5.69	5.71	3.3 ↗
Döbeln	4.61	4.76	4.79	4.0 ↗

Source: Wüest Partner Germany based on immodaten.net; Median prices

Purchase prices

	Purchase prices, EUR/sqm	Change	Purchase prices, EUR/sqm	Change
City	absolute H1 2017 new-build	Δ 2012-2017 (H1)	abs. H1 2017 exist. buildings	Δ 2012-2017 (H1)
Chemnitz	2,150	46.6 ↗	768	0.5 →
Freiberg	1,967	5.6 →	1,058	14.4 ↗
Döbeln	1,230	30.3 ↗	669	8.1 →

Source: Wüest Partner Germany based on immodaten.net; Median prices

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