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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 ↑

Executive Summary

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.

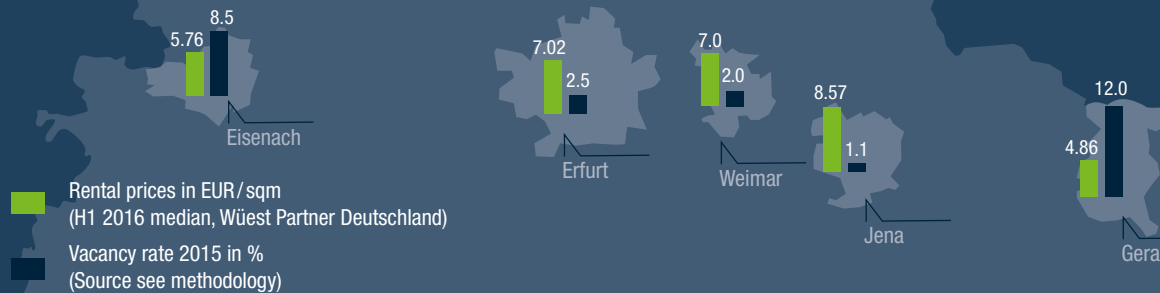
Information on the population figures is based on various sources as of 31. December 2015. The figures for the respective population development are taken from the data provided by the Federal Statistical Office.

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.

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.

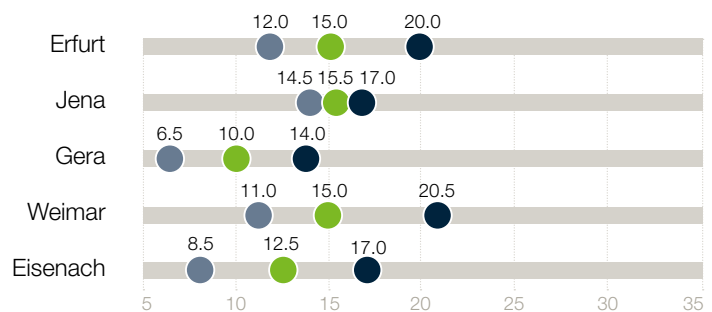
Erfurt: Economic growth boosts housing markets

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

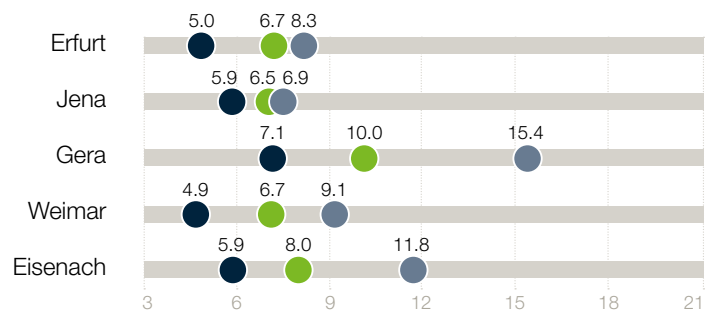
● = minimum ● = average ● = maximum



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

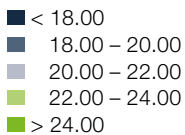
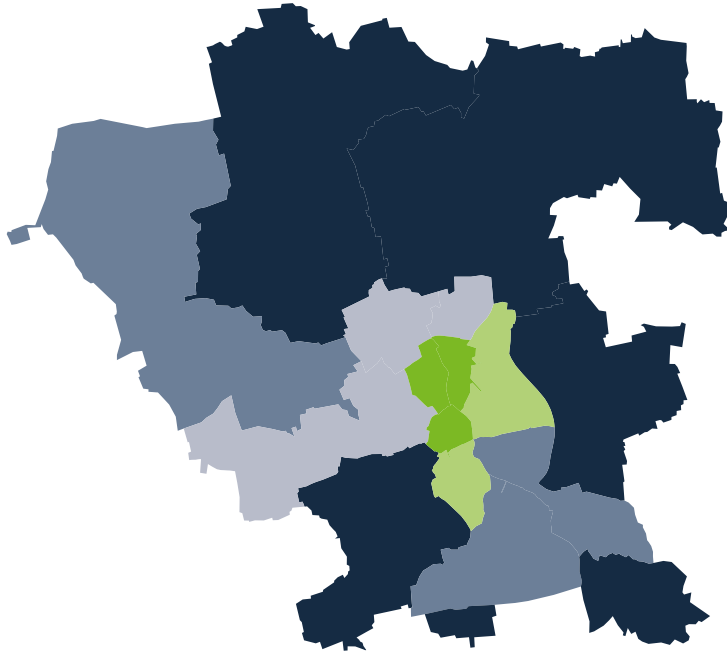
City	Housing 2016 in € millions
Erfurt	441
Jena	212
Gera	105
Weimar	121
Eisenach	58

Source: Real estate market reports

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

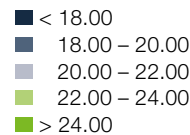
Erfurt

Median housing cost burden in 2017 in %



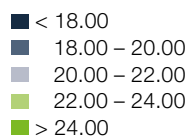
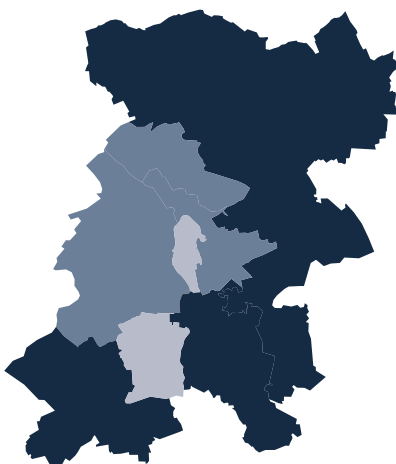
Jena

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

City	Rents in EUR/sqm	Rents in EUR/sqm	Rents in EUR/sqm	Change
	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

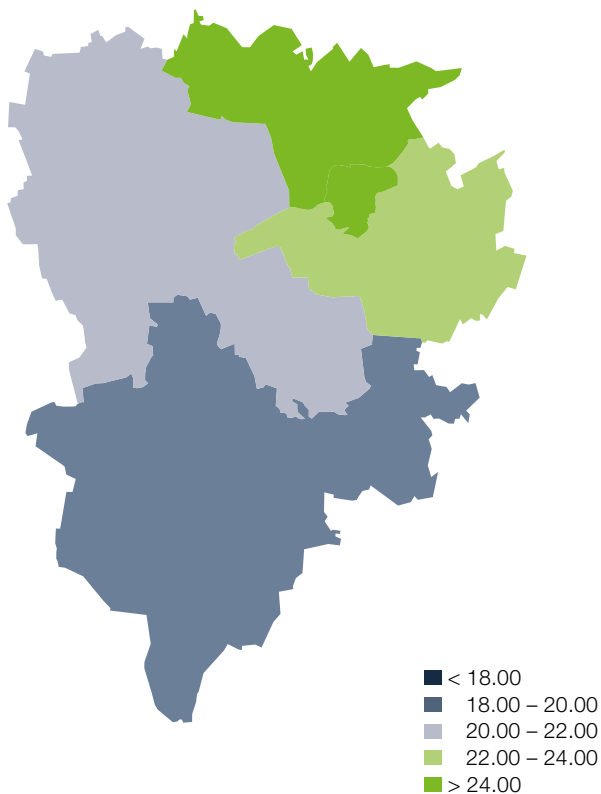
Purchase prices

City	Purchase prices, EUR/sqm	Change	Purchase prices, EUR/sqm	Change
	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

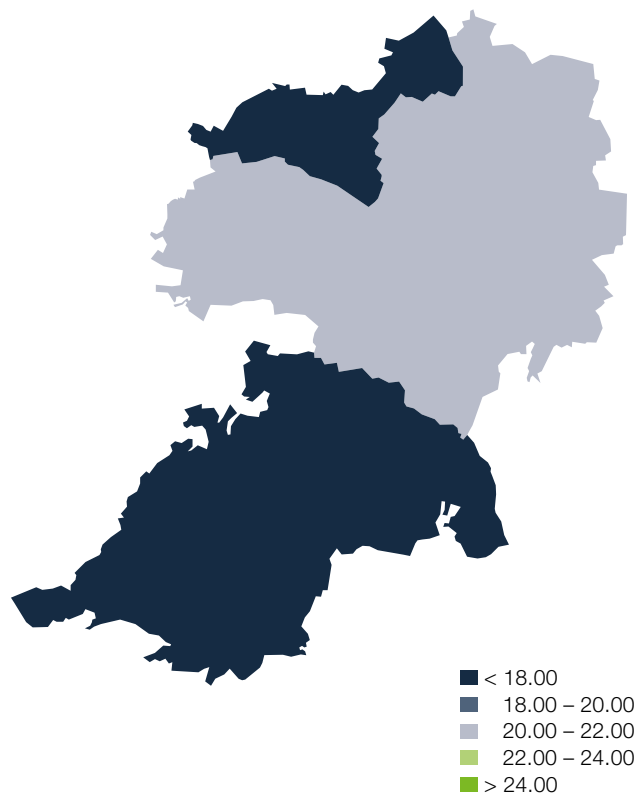
Weimar

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.

