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**PROPERTY MARKET IN BERLIN
AND EASTERN GERMANY 2015**

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Ladies and Gentlemen,

Last year – some 25 years after German reunification – eastern Germany recorded economic growth that can stand comparison with Germany as a whole. According to the Working Group on National Accounts of the German Federal States, the overall economy in the eastern German Federal States grew in 2014 by 1.6 % in real terms. This means that the eastern German economy grew at the same rate as for Germany as a whole. Berlin even recorded a rise in real GDP of 2.2 % compared to the previous year. This is reflected in the increased demand for commercial real estate in line with the continued positive trends in key market indicators. In a number of locations, size of the office workforce and spending power were on the rise while the unemployment rate fell. What is more, tourism in the city continued to flourish. Investors are keen on German commercial properties – whether offices, retail properties or hotels. The market for commercial property investments in Berlin grew in 2014 by around 19 % compared to the previous year. In eastern Germany, investment sales doubled in 2014 compared to 2013.

This year, our report, “Property Markets in Berlin and eastern Germany”, looks at how the commercial sub-markets are benefiting from the robust economy. Besides Berlin, which has expanded its leading position in the retail segment even further, the large eastern German cities are also worth a look. Rents of office space in Leipzig, for example, rose sharply in 2014 compared to 2013 due to growth in white-collar employment. It is also clear that both B-rated cities and Brated or sub-centre locations are increasingly in demand.



Peter Finkbeiner and Niclas Karoff

For more than 20 years, TLG IMMOBILIEN have been active portfolio managers in Berlin and the growth regions of eastern Germany. In addition to Berlin, our business activities are tfocused on the large eastern German cities of Dresden, Leipzig and Rostock. Furthermore, the regional centres and important submarkets of Erfurt, Jena, Magdeburg and Potsdam also occupy a prominent place in this report, which discusses in detail the transaction, office, retail and hotel property markets. The importance of analysing the economic and demographic environment, as well as current market trends, is clearly highlighted in the interview with Dr. Ulrich Kater, Chief Economist of DekaBank, on page 17 to 19. One of the core messages of the interview, namely the “Polarisation between the most desirable cities and areas with declining population”, is that this issue will have a far greater effect on the real estate markets in the future than has been the case so far. We wish to take this opportunity to thank Dr. Kater for his input.

Local expertise and the ability to identify trends ahead of the pack are among the key factors determining the success of investment in real estate. As in previous years, the aim of this report, which also incorporates the market expertise of our local teams, is to contribute to increased market transparency. We wish you an enjoyable and insightful read!

Berlin, September 2015

Peter Finkbeiner
Mitglied des Vorstandes

Niclas Karoff
Mitglied des Vorstandes

EXECUTIVE SUMMARY

BERLIN STRENGTHENS ITS LEAD, STRONG MOMENTUM IN LEIPZIG

The Report “Property Markets in Berlin and eastern Germany”, published by TLG IMMOBILIEN since 1992, offers not only detailed insights into the commercial property market of the German capital, but also gives an overview of real estate markets in the eastern German cities of Dresden, Erfurt, Jena, Leipzig, Magdeburg, Potsdam, and Rostock. While the booming property market in Berlin keeps attracting increasing amounts of capital, Leipzig, Dresden and Rostock appeal with solid fundamentals and rising rents.

BERLIN

Office property market in Berlin:

Vacancy rate drops to 5 %, rising average rents and stable prime rents

In 2014, real GDP in the capital grew by 2.2 % over the previous year, which is significantly higher than the German average (+1.6 %).¹ This positive economic development is reflected in a sharp rise in the number of office workers. In 2014, the office workforce in Berlin reached 695,400, an increase of 2.7 % compared to the previous year.² Growth in Berlin’s economy and office employment is mainly driven by the service sector. This has had a direct effect on the availability of office space – the 2014 vacancy rate of 5 % was very low compared with other major German cities; in 2011, it was 7 %.³ The high demand was reflected in average rents for office space in Berlin, which rose by 7.3 % in 2014 compared to 2013. In the prime segment, however, rents remained largely flat (+2.3 %),⁴ with rents in prime office locations in Berlin ranging between EUR 20 and 23/sqm.

Retail property market in Berlin:

Prime rents reach EUR 300/sqm as the capital attracts international retailers

Conditions in Berlin’s retail property market are particularly encouraging: while the unemployment rate dropped further from 11 % to 10.5 % between June 2014 and June 2015, Berlin’s per capita retail spending rose by 3.4 % in 2014 to EUR 5,493. The Spree metropolis again registered a record number of overnight stays last year, reaching almost 28.7 million. These factors explain to some extent the popularity of Berlin as a retail location. According to Jones Lang LaSalle (JLL), Berlin, together with Munich, is among the 10 most attractive retail destinations in Europe and is seen as an important gateway by international retailers looking to expand to Europe.⁵ In terms of rent growth, prime locations and central business districts benefited most from the high demand for space. Retail rents in prime locations once again recorded the fastest growth in 2014. While in 2013, rents for larger prime space over 150 square metres increased from EUR 180 to 250/sqm year-on-year, in 2014, they climbed up to EUR 300/sqm. At the same time, rents for smaller spaces up to 100 square metres also showed significant growth. In Berlin’s commercial centres, top rents reached EUR 180/sqm in some cases in 2014 – representing a year-on-year rise of 12.5 %.

¹ Federal Statistical Office

² bulwiengesa 2015

³ bulwiengesa 2015

⁴ Savills Research

⁵ JLL (2014): press release dated 27.11.2014, Munich and Berlin among the ten most attractive retail locations in Europe

Hotel market in Berlin:

Higher room revenues and occupancy rates despite competitive pressures; Berlin added 1,700 new hotel rooms in 2014

In 2014, some 12 million tourists checked into Berlin's hotels, representing nearly 28.7 million overnight stays. The record result with a year-on-year surge in overnight stays of 6.5 %⁶ is mainly attributable to Berlin's important role as a business and holiday destination. Its high appeal to both groups often results in higher and more stable room occupancy rates in the capital. In 2014, the average room occupancy of hotels in Berlin reached a record high of 74.2 %. In addition, in 2014, revenue per available room (RevPAR) increased in Berlin by around 4.2 % year on year to EUR 66.35. The average daily rate (ADR) reached EUR 89 (+2 %) and was thus EUR 2 above the German average.⁷

Investment market in Berlin:

Transaction volume 27 % above the 10-year average

In 2014, Berlin's market for investment in commercial property registered growth of around 19 % year on year and reached a transaction volume of nearly EUR 4.28 billion. This is 27 % above the 10-year average and is the best result since 2007. The enduring growth in 2013–2014 is primarily attributable to investment in hotel properties, development sites and mixed-use properties. Although some of these segments have increased their turnover share significantly, the biggest slice was again commanded by office properties, with around 40 % of the total investment volume in 2014 (EUR 1.72 billion).⁸ While in 2014, investment in office properties in Berlin rose by 6.1 % year on year, investment in retail properties fell by around 31 %.⁹ This is mainly due to the fact that long-term buyers want to hold on to the properties purchased in recent years¹⁰, thus creating a supply constraint in the market.

⁶ Amt für Statistik Berlin-Brandenburg (2015) [Berlin-Brandenburg Statistics Office]: Press release dated 18.2.2015 "Tourismus in Berlin auch 2014 wieder mit neuen Höchstzahlen" [Tourism in Berlin again posts record figures]

⁷ Colliers International (2014): Hotelmarkt Berlin [Hotel market in Berlin] 2014/2015, PwC (2015): Room for growth – European cities hotel forecast for 2015 and 2016 for 20 gateway cities from Amsterdam to Zurich, STR Global 2015

⁸ BNP Paribas Real Estate (2015): Investment Market Germany – Property Report 2015

⁹ BNP Paribas Real Estate

¹⁰ CBRE (2015): Investment market in Berlin, 4/2014

EXECUTIVE SUMMARY

EASTERN GERMANY

Office markets in eastern Germany: Growth in white-collar employment reflected in falling vacancy rates

The office property markets in eastern German cities have benefited from the favourable conditions and growth in the German economy. The unemployment rate in many larger eastern Germany cities has been falling at a steady rate. With the exception of Potsdam, white-collar employment in eastern German cities rose in 2013–2014, with Leipzig and Jena showing strongest growth at just under 4 % and 2.6 % respectively. Positive trends were also seen in the Dresden and Rostock office markets, which grew by 1.6 % and 1.2 % respectively. As the construction of new offices is not quite keeping pace with the growth in the workforce, vacancy rates continued to fall last year in six of the seven cities. Although Potsdam is not among them, it does have the lowest supply surplus with a vacancy rate of 4.9 %, followed by Rostock with an office vacancy rate of 7.6 %. Positive dynamics in the employment market did not affect property markets in the eastern German cities to the same extent. In Dresden and Magdeburg, rent levels across all office segments remained flat compared to the previous year. In contrast, top rents for offices with good utility value in Leipzig rose by around 4 % compared with 2013, reaching EUR 12.50/sqm.

Retail markets in eastern Germany: Higher purchasing power and rising rents – not only in central business districts

While retail spending power in most growth regions of eastern Germany is still below the German average, it has been rising steadily in most large eastern German cities, with Leipzig recording the highest increase of 8.3 % between 2011 and 2014. At EUR 5,672 per head, Potsdam surpassed the German average of EUR 5,657 for the first time in 2014.¹¹ Leipzig scores highly both in terms of purchasing power and rent levels. Leipzig commands the highest prime rents for larger and smaller retail spaces in central business districts (EUR 85/sqm and EUR 130/sqm, respectively). Rents outside prime locations are also on the rise. In Rostock, rents have been rising mainly in sub-centre locations. Top rents for larger areas over 150 square metres reached EUR 11.50/sqm, representing a 4.5 % increase compared to the previous year. Rents for smaller spaces up to 100 square metres in sub-centre locations rose by around one-third from a high of EUR 30 up to 40/sqm.

¹¹ GfK GeoMarketing, 2015

Hotel markets in eastern Germany:

Dresden, Leipzig and Rostock are setting the pace

Dresden and Leipzig are increasingly turning into tourist magnets and in 2014 they recorded the highest number of overnight stays of all the eastern German cities (excluding Berlin) with a combined total of 7.2 million. In Dresden, overnight stays shot up by 7.6 %, the sharpest rise recorded in any major eastern German city – including Berlin! As in the previous year, hotels in Rostock and Leipzig recorded the highest revenue per available room (RevPAR) with EUR 63.78 and EUR 52.25 respectively. It is, therefore, hardly surprising that hotels in these two cities have the highest room occupancy rates at close to 69 %, and average daily rates and EUR 92.91 (Rostock) and EUR 75.82 (Leipzig). Dresden commanded the third highest average daily rate at EUR 72.20¹², increasing its occupancy rate substantially to just under 67 % in 2014.

Investment markets in eastern Germany:

Investment in commercial properties doubles

An analysis of the eastern German states (excluding Berlin) shows increased investor interest in smaller markets. Investment turnover doubled here in 2014 compared to 2013 from EUR 1.36 to 2.7 billion.¹³ Leipzig, in particular, is one of the most dynamic cities in Germany and is increasingly sought after by investors thanks to its above-average GDP and population growth.¹⁴ Investment volume in this city, famous for its trade fairs, doubled in 2014 compared to 2013. Last year, EUR 516 million was invested in commercial real estate in Leipzig, the bulk of which went into retail (36.6 %) and office properties (26.9 %). Besides these sectors, transaction volumes also rose sharply in the logistics and hotel segments¹⁵, which speaks volumes for the growing importance of Leipzig as a logistics hub and as a destination for business and leisure travellers.

¹² Statistische Landesämter [Statistical Offices of the German Länder], STR Global 201

¹³ Savills (2015): Analysis for TLG IMMOBILIEN AG

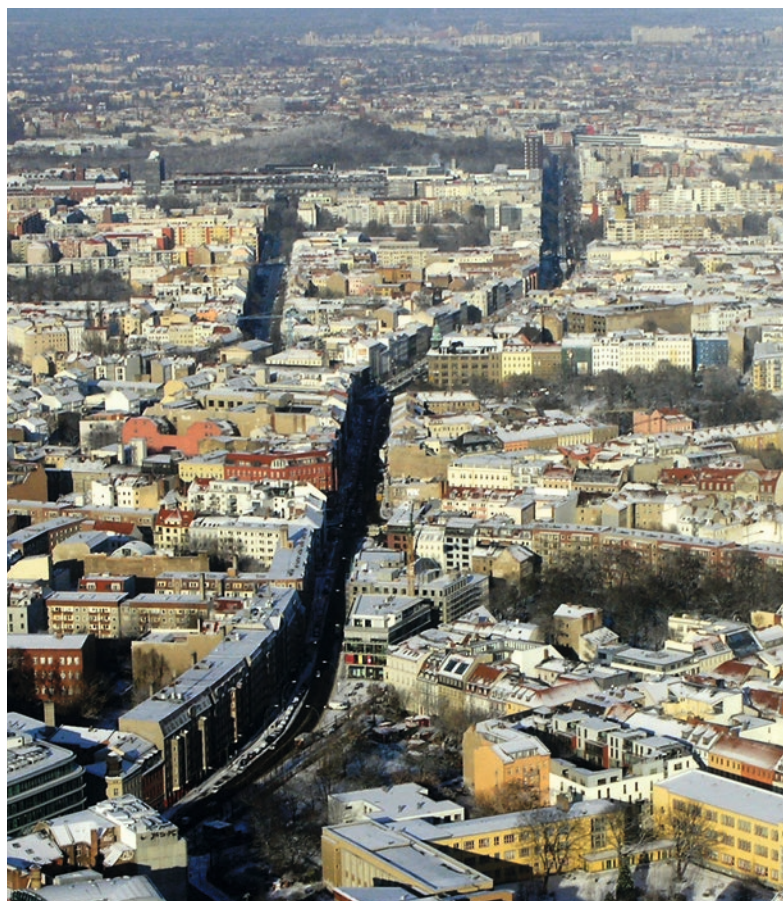
¹⁴ Aengevelt (2015): Press release dated 17.4.2015, Leipzig – Deutlicher Umsatzanstieg [Leipzig – sharp increase in sales]

¹⁵ BNP Paribas Real Estate (2015)

BERLIN'S PROPERTY MARKET: FLOURISHING ECONOMY OPENS INVESTMENT OPPORTUNITIES

Largest investment opportunities – Property markets in general, and the property market in the German capital in particular, are benefiting from increased investor demand. This is fuelled by low yields in many asset classes. While there are fewer available properties even in Berlin thanks to intense competition for lucrative properties, prices are moderate compared to London, Paris or Munich. According to the report “Emerging Trends in Real Estate Europe 2015”, published by the Urban Land Institute (ULI) and PricewaterhouseCoopers (PwC), Berlin ranks first as the city with the best investment prospects in the real estate market. The report is based on surveys and interviews with around 500 influential leaders in the real estate industry in Europe, including fund and investment managers, project developers, asset and property managers and financiers. As Munich is perceived by many investors to be too expensive, investment may not be worthwhile anymore. As a result, Munich dropped from the top spot it held in the survey last year down to 11th place in 2015. In contrast, Berlin climbed from 4th last year to become the top-rated city in 2015. The assessment of market experts is mainly based on low prices and excellent fundamentals compared to other European cities.¹⁶

Declining unemployment¹⁷ along with population growth¹⁸ and rising spending power¹⁹ are great conditions for successful long-term investment in Berlin's commercial property market. Other positive factors include Berlin's buoyant economy and the growing number of visitors who generate a quarter of retail sales.²⁰ While in 2013–2014 the number of overnight stays in Berlin increased by around 6.5 %, between 2012 and 2014, it soared by 15.2 %.²¹



Berlin: European city with the best investment prospects in the real estate market

Compared with other top city break destinations – such as Munich or Hamburg – these growth rates are remarkable: Between 2012 and 2014 the number of overnight stay-sincreased by nearly 13 % in Munich and by 8.5 % in Hamburg.²² At the same time, it is not just the tourism industry that is growing. According to the economic report published by the Chamber of Industry and Commerce in Berlin-Brandenburg, businesses are feeling optimistic about the coming months. Industrial and construction companies, retailers and service providers all expect the economy to continue to grow in the coming months. The weak euro is boosting Berlin's exports and tourism.

¹⁶ ULI/pwc (2015): Emerging Trends in Real Estate Europe 2015, p. 29/30/74

¹⁷ Bundesagentur für Arbeit [Federal Employment Agency] (02/2015): number of unemployed and the unemployment rate

¹⁸ Amt für Statistik Berlin-Brandenburg (2015) [Berlin-Brandenburg Statistics Office]

¹⁹ GfK Geomarketing (2015)

²⁰ DG HYP (2015): Regionale Immobilienzentren Deutschland [Main regional real estate markets in Germany], p. 18

²¹ Amt für Statistik Berlin-Brandenburg [Berlin-Brandenburg Statistics Office]

²² Statistisches Amt für Hamburg und Schleswig-Holstein [Statistical Office for Hamburg and Schleswig-Holstein]: press releases; Bavarian State Office for Statistics: data requests



This is supported by the business confidence index of the capital region, which measures the level of optimism about prospects felt by businesses. At 128 points at the start of 2015, the index was just one point below the previous year's level, but 10 points above the 118 points recorded at the beginning of 2013.²³

Magnet as a workplace – Berlin's popularity is manifesting itself not only in the increasing number of overnight stays, but also in terms of population growth. Between 2009 and 2013, the number of residents in the German capital rose by roughly 160,000, equivalent to the entire population

of the neighbouring city of Potsdam.²⁴ By the end of June 2014, the population had grown by 47,000 when compared with the end of June 2013.²⁵ The increasing supply of jobs in Berlin is an important factor driving the growth in the number of inhabitants. According to City Ranking 2014 published by the Cologne Institute for Economic Research, Wirtschaftswoche and Immobilienscout 24, the jobs supply increased by 7.7 percentage points between 2008 and 2013, compared with the average growth of 4.4 % recorded across all 69 cities included in the comparison. In addition, net business registrations amounted to 3.4 per 1,000 inhabitants in 2013. Berlin is well ahead of its peers and is ranked third out of 69 urban districts in Germany.²⁶

The outlook for 2015 suggests the optimistic sentiment on Berlin's labour market will continue. According to Unternehmensverbände Berlin-Brandenburg [Business Associations of Berlin and Brandenburg] (UVB) Berlin is expected to add at least 25,000 new jobs in 2015. This is underpinned by solid growth in the number of start-ups.²⁷ Furthermore, Berlin has managed to maintain its strong position in the international labour market. A survey on global mobility conducted jointly by The Boston Consulting Group and StepStone concluded that Germany is an attractive destination and the most popular non-English-speaking country. More than 200,000 workers from 189 countries participated in the survey, which was carried out between April and June 2014. Both Germany and Berlin are popular destinations for foreign jobseekers due to the stable economic environment and attractive living conditions. Berlin is among the 10 most sought-after destinations for workers looking for jobs abroad – next to London, New York and Paris.²⁸ This position among German and international cities is an advantage for all real estate segments.

²³ Konjunkturreport [Economic Report] 2015: Die konjunkturelle Lage in der Region Berlin-Brandenburg zum Jahresbeginn 2015 [The economic situation in the Berlin-Brandenburg region at the start of 2015], p. 5

²⁴ IBB (2015): IBB Housing Market Report 2014, p. 5.

²⁵ Amt für Statistik Berlin-Brandenburg [Berlin-Brandenburg Statistics Office]

²⁶ IW Köln [Cologne Institute for Economic Research]/Wirtschaftswoche/Immobilienscout 24 (2014): City Ranking 2014

²⁷ Berliner Wirtschaft (04/2015): Das Magazin der Industrie- und Handelskammer zu Berlin [Magazine of the Chamber of Industry and Commerce in Berlin], p. 55

²⁸ BCG/StepStone (10/2014): Press release on the study "Decoding global talent"

PROPERTY MARKET IN EASTERN GERMANY: FASTEST GROWING CITIES NATIONWIDE

Some 26 years after the fall of the Berlin wall, the economy in the country's East is stronger than ever before. In a city ranking published by the Cologne Institute for Economic Research (IW Cologne) in cooperation with Immobilienscout 24 and Wirtschaftswoche, Leipzig, Berlin and Erfurt are among the 10 most dynamic locations in Germany. While cities in the eastern states often rank behind the cities in the south, they are among the top 10 cities in Germany in the city ranking published every year by the Cologne Institute for Economic Research. Many eastern German locations such as Potsdam, Dresden and Jena make it into the upper half of the table of 69 analysed urban districts in Germany with more than 100,000 inhabitants. Achieving an average score of 52.7, the major cities in eastern states had the highest dynamics of all German regions. The average score of all surveyed cities was 50 points. The ranking is based on indicators from the labour market, economic structure, residential property market and quality of life.²⁹

Potsdam – steady immigration and low unemployment

The appeal of Potsdam as an attractive place to live and work is reflected in the steady growth in population since 2006. As at the end of the first half of 2014, Potsdam added around 2,400 inhabitants. In 2013, the number of inhabitants increased by 2,000 compared to 2012.³⁰ This rise is mainly due to migration, but also natural population growth. One reason for the influx is the broad range of training, study and jobs available in the state capital. The employment trends index, which has shown solid growth since 2006, can be seen as an indicator of this development. The number of employees liable to pay social security contributions is growing faster than the population.³¹ Potsdam's 6.7% unemployment rate was the lowest recorded in June 2015 compared with the large

urban districts and Berlin.³² The low unemployment rate is a reflection of the rise in business registrations, among other factors. According to the City Rankings published by IW, net business registrations rose by 2.9 per 1,000 inhabitants, while the average for all 69 cities dropped by 0.4, putting Potsdam in first place.³³

Rostock – a business centre with high quality of life

In 2014, the Hanseatic city was able to consolidate its position as a major centre for IT, services and wind energy. The economic dynamism of Rostock is reflected in businesses flocking to the city. For example, comdirect bank opened a new testing and development centre, the car hire company Sixt expanded its service centre here and EnBW AG completed a new facility for its offshore wind farm.³⁴ Moreover, Rostock port facilities handled 3 million tonnes of additional goods in 2014, an increase of 13% compared to the previous year.³⁵ The city's economic



Rostock

²⁹ IW Köln Consult/Wirtschaftswoche/Immobilienscout 24 (2014): City ranking 2014 – Major German cities compared

³⁰ Amt für Statistik Berlin-Brandenburg [Berlin-Brandenburg Statistics Office], State Capital of Potsdam (2014): Regionaler Wachstumskern Landeshauptstadt Potsdam, Statusbericht [State Capital of Potsdam – a regional growth core, status report] October 2014

³¹ State Capital of Potsdam (2014): Regionaler Wachstumskern Landeshauptstadt Potsdam, Statusbericht [State Capital of Potsdam – a regional growth core, status report] October 2014

³² Bundesagentur für Arbeit [Federal Employment Agency] (2015): Data request on 1.7.2015

³³ IW Köln Consult/Wirtschaftswoche/Immobilienscout 24 (2014): City ranking 2014 – Major German cities compared

³⁴ <http://www.rostock-business.com/de/rostock-news/artikel/grosse-marken-solides-wachstum-und-erstklassige-veranstaltungen.html>, accessed on 5.5.2015

³⁵ Rostock Business (2015): Newsletter 01 /2015 of Gesellschaft für Wirtschafts- und Technologieförderung Rostock mbH

success is reflected in its gross domestic product and unemployment rate. Between 2008 and 2012, Rostock's GDP rose by 11.2 % – well above the 8.1 % average as calculated by the Cologne Institute for Economic Research as part of City Ranking 2014, which analysed 69 urban districts in Germany.³⁶ Within four years, the unemployment rate dropped from 12.5 % in June 2011 to 9.6 % in June 2015.³⁷ In addition to economic factors, the Hanseatic City also boasts high quality of life. According to DekaBank, the high proportion of green space and low crime rates are a major factor in Rostock being ranked 14th in terms of quality of life among the 39 analysed German cities with at least 200,000 inhabitants.³⁸

Dresden – growth in population and overnight stays The State Capital of Saxony is loved by its inhabitants. In a nationwide comparison of quality of life in 27 major German cities, the inhabitants of Dresden are the most satisfied.³⁹ Dresden's appeal is mainly due to the supply of attractive jobs. In addition to high-tech and service companies, the city is home to numerous medium-sized companies, research institutes and a microelectronics cluster.⁴⁰ As a result, the number of employees subject to social security contributions grew by more than 13 % between 2008 and 2014. Young people, in particular, benefited from this development with youth unemployment falling by 6 percentage points between 2008 and 2013, more than in any other German city.⁴¹



Dresden

With its location on the River Elbe, and numerous cultural facilities such as the Semper Opera House and the Dresden Zwinger palace, the state capital offers high quality of life with abundant leisure and recreational opportunities. The relatively high level of overall life satisfaction of the inhabitants of Dresden has been the main driver behind the ever-growing population. In 2014, the city registered 5,500 new inhabitants compared to 2013, which also resulted in a higher growth rate. This increase is due largely to the immigration of young people, for instance, attending one of Dresden's 11 higher-education institutes.⁴² Lastly, the appeal of Dresden is also clearly reflected in the growing tourist numbers: By the end of 2014 the number of overnight stays rose to about 4.5 million, representing a 7.6 % rise compared to the previous year.⁴³

³⁶ IW Köln Consult/Wirtschaftswoche/Immobilienscout 24 (2014): City ranking 2014 – Major German cities compared

³⁷ Bundesagentur für Arbeit [Federal Employment Agency] (2015): Data request on 1.7.2015

³⁸ DekaBank (2014): DekaBank Städteranking [DekaBank City Ranking] 2014, p. 23

³⁹ State Capital of Dresden (2014) at: <http://www.dresden.de/de/02/06/09/Lebensqualitaet.php>, accessed on 13.5.2015

⁴⁰ Richtert & Oertel Immobilien: Marktbericht Dresden [Market Report Dresden] 2014/2015

⁴¹ IW Köln Consult/Wirtschaftswoche/Immobilienscout 24 (2014): City ranking 2014 – Major German cities compared

⁴² State Capital of Dresden (2015): Press release dated 21.1.2015 "Dresdens Bevölkerung wächst weiter" [Dresden's population continues to grow]

⁴³ Focus (2015): "Dresden legt bei Übernachtungszahlen zu" [Dresden sees growth in overnight stays] of 2.3.2015



Leipzig

Leipzig – Germany’s fastest-growing city Leipzig as a major business centre is becoming increasingly attractive as a place to work and live. This has been reiterated by the latest city ranking published by the Cologne Institute for Economic Research based on population growth and the number of employees liable to pay social security contributions. Between 2011 and 2013, the number of inhabitants in Leipzig increased by 5.7 % due to high net inward migration, making it Germany’s fastest growing city. According to the analysis of 69 major German cities with district status carried out by the Cologne Institute for Economic Research, the average population growth over the same period was 1.8 %.⁴⁴ According to census data,⁴⁵ Leipzig overtook even Dresden between 2013 and 2014 and is now the largest city in Saxony with close to 536,000 inhabitants. Population growth in Leipzig is accompanied by growth in economic output – with GDP growing by 17.2 % between 2008 and 2012, the city ranked sixth in the comparison of

69 major German cities. The growing economic power is also reflected in rising employment. Here, the city known for its trade fairs ranks first in economic dynamism among the 69 cities – between 2008 and 2014, the number of employees increased by 19.5 %.⁴⁶ Despite declining sharply, the unemployment rate in Leipzig remains with 9.4 % (as at June 2015) slightly above the eastern German average of 8.8 %.⁴⁷

Magdeburg – steady economic growth and productivity gains

With over 230,000 inhabitants, the state capital is the political and economic centre of Saxony-Anhalt. According to analyses carried out by DekaBank and the Cologne Institute for Economic Research, this city on the Elbe River scores highly, in particular due to its economic stability and productivity growth. Between 2008 and 2012, gross domestic product per employed person increased by 9.4 %, placing Magdeburg 11th among the 69 major German cities analysed in the city ranking of the Cologne Institute for Economic Research.⁴⁸

According to DekaBank, Magdeburg offers second-best value behind Berlin based on the relation between the rate and volatility of economic growth between 2003 and 2012. As a result, economic growth in Magdeburg is distributed very evenly.⁴⁹ The engineering industry, in particular, which can look back on 150 years of tradition in Magdeburg, contributes to the strong dynamism of the city⁵⁰ with around 60 companies and some 11,000 employees. This is also reflected in the fall in youth unemployment. Between 2008 and 2013, Magdeburg’s youth unemployment rate fell by 3.2 percentage points. According to the 2014 city rankings published by the Cologne Institute for Economic Research, this puts the city in fifth place among the 69 major German cities.⁵¹

⁴⁴ IW Köln Consult/Wirtschaftswoche/ImmobilienScout24 (2014): City ranking 2014 – Major German cities compared

⁴⁵ Statistisches Landesamt Sachsen [Statistical Office of the Free State of Saxony], population growth estimates based on census data of 9.5.2011

⁴⁶ IW Köln Consult/Wirtschaftswoche/ImmobilienScout24 (2014): City ranking 2014 – Major German cities compared

⁴⁷ Bundesagentur für Arbeit [Federal Employment Agency] (2015): Data request on 1.7.2015

⁴⁸ IW Köln Consult/Wirtschaftswoche/ImmobilienScout24 (2014): Städteranking 2014 – Deutsche Großstädte im Vergleich

⁴⁹ DekaBank (2014): DekaBank Städteranking 2014, S. 12

⁵⁰ Gesellschaft für Wirtschaftsservice Magdeburg mbH: Brancheninformation Maschinenbau und <http://www.magdeburg.de/Start/Wirtschaft-Arbeit/Wirtschaftsstandort/Schwerpunktbranchen/index.php?NavID=37.808.1&La=1>, Abruf am 6.5.2015

⁵¹ IW Köln Consult/Wirtschaftswoche/ImmobilienScout24 (2014): Städteranking 2014 – Deutsche Großstädte im Vergleich

Erfurt – among the top 10 most dynamic cities in Germany

Besides Berlin and Leipzig, the State Capital of Thuringia has recorded particularly strong growth in eastern Germany. In the city ranking for 2014 carried out by the Cologne Institute for Economic Research, Erfurt ranks ninth in terms of economic dynamism among the 69 German cities with district status, which is a major improvement over the 30th place it held last year. Due to the positive economic trend, the number of overindebted adults and recipients of unemployment benefit declined sharply between 2008 and 2013, securing Erfurt a top spot in these categories.⁵² Erfurt's economic success is based on a broad range of sectors, including the engineering, photovoltaic, logistics and micro technology industries, which are now firmly established as Erfurt's areas of expertise.⁵³ Usable space in Erfurt's industrial zones, such as the freight village and the international logistics centre, is quickly becoming scarce.⁵⁴ Erfurt's economy, including the tourism industry, will receive a further

boost from the expansion of its main railway station to become an ICE (high speed inter-city) junction, which will cut travel times to Berlin, Munich, Frankfurt and Dresden.⁵⁵ This means that prospects for further economic growth are encouraging – between 2010 and 2012, Erfurt's gross domestic product grew by 4.3 % (Germany: +4.2 %).⁵⁶

Jena – a research centre with excellent future prospects

The Thuringian university town is known for its optical products companies Carl Zeiss and Jenoptik. Many research institutions, such as the Max Planck Society for the Advancement of Science or the Leibniz Association and other high-tech companies, take advantage of the cluster of science and research expertise in the city. The two universities now boast some 24,000 students⁵⁷ and some 4,500 scientists conducting research in the city.⁵⁸ In the ranking of 69 major German cities carried out by the Cologne Institute for Economic Research, Jena is ranked among the top 10 German research centres, next to cities like Berlin, Munich, Stuttgart and Dresden.⁵⁹ However, Jena is far more than just a centre for education, science and research. The city is home to international organisations as well as small and medium-sized enterprises, not only from the research sector, but also in contemporary crafts and catering. According to the Prognos Future Map, Jena has excellent prospects for the future, with the city ranking 26th among 402 German cities, while even achieving 6th place with regard to demographics.⁶⁰ According to population forecasts prepared by Analyse & Konzepte, Jena is expected to continue to grow until at least 2030. Compared to 2013, the number of inhabitants is expected to increase by 3.6 % to around 109,000 as a result of a high natural growth rate and net inward migration, especially from the new federal states and abroad.⁶¹



Erfurt

⁵² IW Köln Consult/Wirtschaftswoche/ImmobilienScout 24 (2014): City ranking 2014 – Major German cities compared

⁵³ Stadtverwaltung Erfurt [Erfurt City Council]- WirtschaftsAtlas [economic map] 2011, p.10ff

⁵⁴ Thüringer Allgemeine from 21.1.2015: "Erfurt begibt sich auf die Suche nach neuen Gewerbegebieten" [Erfurt on a search for new industrial locations]

⁵⁵ <http://www.ice-knoten.de/ueberblick/>, Abruf am 7.5.2015

⁵⁶ National accounts of the Länder

⁵⁷ Wirtschaftsförderungsgesellschaft Jena mbH: Jena – facts and figures, March 2015

⁵⁸ Wirtschaftsförderungsgesellschaft Jena mbH: Location profile Jena

⁵⁹ IW Köln Consult/Wirtschaftswoche/ImmobilienScout 24 (2014): City ranking 2014 – Major German cities compared

⁶⁰ <http://www.prognos.com/publikationen/zukunftsatlas-regionen/> – accessed on 7.5.2015

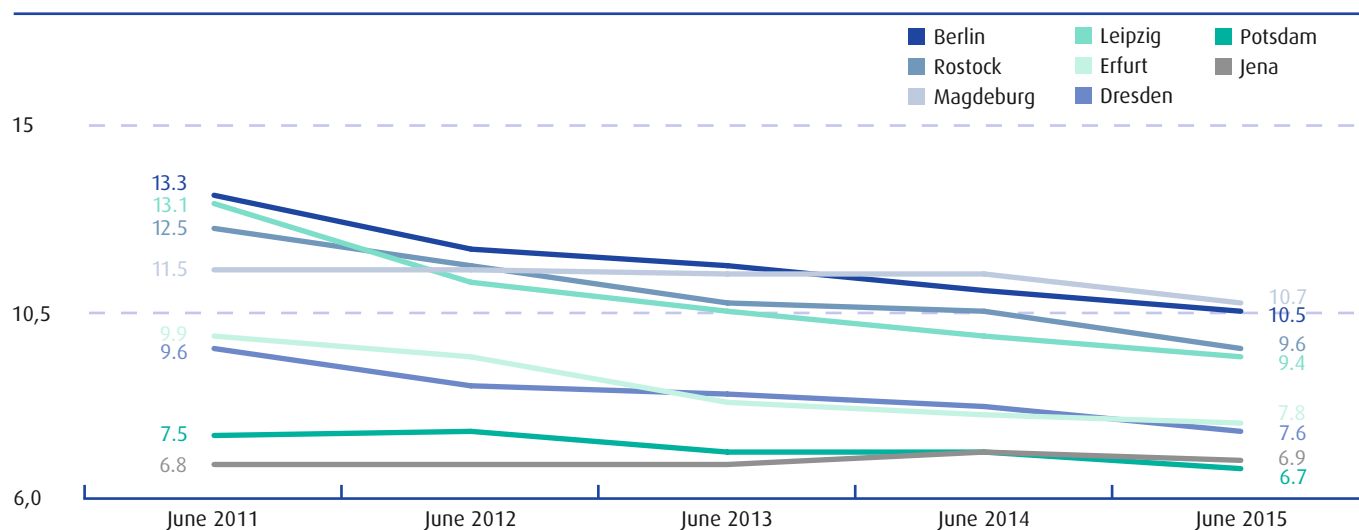
⁶¹ Jena: 2014 population forecast – summary report

DEMOGRAPHICS AND ECONOMY IN BERLIN AND MAJOR EASTERN GERMAN CITIES

	City	Population (30.06.2014)	Population growth in absolute terms (1. Hj. 2013/1. Hj. 2014)	GDP per employed person in EUR (2012)	Change in GDP per employed person in % (2010/2012)
BB	Berlin	3,440,991	46,861	59,944	2.2
	Potsdam	162,425	2,374	49,131	2.9
MV	Rostock	203,421	893	56,761	2.6
SN	Dresden	531,982	6,053	48,919	-1.9
	Leipzig	535,732	12,013	50,155	8.5
ST	Magdeburg	230,815	1,057	49,537	3.7
TH	Erfurt	205,276	1,520	44,162	4.3
	Jena	107,422	797	54,525	10.4
	Germany	80,925,000	339,300	64,084	4.2

Source: Population figures – statistical offices of the German states, data based on 2011 census
GDP per employed person – statistical offices of the Länder; National accounts of the Länder

Unemployment figures 2011–2015 in percent (based on the civilian workforce)



Source: Bundesagentur für Arbeit/ Federal Employment Agency (2015)



INTERVIEW

WITH DR. ULRICH KATER

The aim of DekaBank’s ranking of German cities with a population of 200,000 inhabitants or more is to rate major German cities according to their attractiveness as property locations.

The overall ranking of cities is the result of scoring individual criteria, including prosperity, labour market, quality of life, accessibility, economic stability, demographics and education.

In addition, DekaBank regularly publishes research on the individual federal states, which analyses the macroeconomic environment, the situation in the capital markets and the commercial property markets, and highlights investment opportunities.

“Polarisation between the most desirable cities and areas with declining population”

In the city ranking published by DekaBank in December 2014, Berlin and Leipzig come out best in terms of economic stability among the 39 analysed German cities. Overall, both cities rank middle of the pack. Besides Berlin and Leipzig, Magdeburg also recorded consistently high levels of economic growth.

What are the main characteristics of the economic structure of Berlin and Leipzig, and how would you explain the particularly stable economic growth here, including in Magdeburg?

Dr. Kater: Berlin and Leipzig have different economic priorities. While classic manufacturing now plays only a minor role in the economy of the capital, the importance of the creative industries, biotechnology, information and communication technologies has been growing progressively. They are also strongly intertwined with local universities, science and research. One of the largest science and technology clusters in Germany is located in Adlershof.

Leading export-oriented automotive companies have settled in Leipzig with a variety of downstream suppliers, and the structure of the service sector here is equally diversified. In Magdeburg, thanks to its status as a state capital, there is a strong concentration of public and other services, which probably contributed to the stability of economic growth.

Together with Munich, Dresden recorded the highest population growth among major German cities between 2002 and 2012. Leipzig also performed well in this respect.

What are the reasons for the significant growth in population in the two Saxon cities? After all, Dresden and Leipzig only achieve medium rankings in terms of prosperity, life quality and education.

Dr. Kater: Dresden and Leipzig are among the most desirable cities, benefiting from high inward migration of people in the 20 to 35 age group. They appreciate the well-established universities and numerous other higher education facilities as well as the job opportunities in high-tech industries, which have a strong presence especially in Dresden ("Silicon Saxony"). In addition, both cities offer a broad range of cultural attractions and largely intact housing markets without any signs of overheating. Quality of life is a very subjective factor, which can be difficult to quantify, and this criterion should therefore not be overrated in the city ranking.

Against the background of encouraging rankings for the eastern German cities and Berlin in the individual categories, what developments do you see with regard to the office, retail and hotel property markets? Given the already high price levels in the "big 7", will it make more sense to invest in B-rated locations such as Dresden and Magdeburg in future?

Dr. Kater: Berlin has to be looked at separately, because it belongs to the "big 7" league in Germany, and is highly sought after by both domestic and international investors. The office market, in particular, has developed very positively after overheating in the 1990s; vacancy rates are at their lowest level in 20 years. The retail market is benefiting from the diversity of prime locations; the very dynamic development around Hackescher Markt is a case in point here. As a location, the capital experienced a boom which has lost momentum somewhat, but is still supported by the large increases in overnight stays. Dresden and Leipzig, as B-rated cities, are certainly worthwhile alternatives, even if they weren't able to escape the pressure on yields. While the retail and hotel markets have performed well, the office segment is somewhat lagging behind. Given the small size of the market, Magdeburg is unlikely to benefit much from this trend.

Where do you see the eastern German cities in 10 years in terms of economic and demographic growth? Is growth concentrated in individual cities such as Dresden and Leipzig or do the positive effects extend to surrounding districts and smaller cities?

Dr. Kater: It is true that, over a 10-year period, Dresden and Leipzig, as well as some of the smaller cities like Erfurt and Jena, are expected to outperform other cities like Cottbus, Gera and Schwerin, which suffer from ongoing outward migration and structural economic weaknesses.

Polarisation between the most desirable cities and areas with declining population is likely to become more pronounced over time. Similar to the area surrounding Berlin, the districts adjacent to Dresden and Leipzig benefit from the economic strength of the core cities, with districts in the immediate vicinity set to benefit the most.

This spring, the German Federal Government adjusted its real GDP growth forecast for 2015 from 1.5% to 1.8% – mainly due to extraordinary factors, such as the low price of oil, rising consumer confidence and the weak euro.

Will this be advantageous for some property markets (e.g. retail) or will all the property markets benefit from the upswing in equal measure?

Dr. Kater: A stable labour market, rising wages, low inflation and extremely low interest rates continue to support private consumption. While the retail sector is likely to benefit more, particular attention should be given to the growth in online retailing, which will lead to structural changes on the high street with implications for the retail property market. Food retail properties play a special role in this context, as the impact of online retailing remains limited.

On the other hand, the logistics property market benefits from the boom in online retailing. We also believe that the hotel property market has good prospects for growth, because city breaks – unlike business travel – still offer plenty of upside potential. Growth in the office property market has been more sluggish, as the economic recovery has so far not been reflected in a significant increase in demand.

Professional background

Dr. Ulrich Kater has been Chief Economist at DekaBank since 2004, and Chairman of the Economic and Financial Committee of the Association of Public Banks (VÖB) since 2006. Dr. Kater was responsible for monetary policy and capital markets at the German Council of Economic Experts from 1995 to 1999, and since 1999 has been involved in the establishment of the Economic Research Department at DekaBank.

DekaBank – Company profile

DekaBank provides asset management and capital market solutions for German savings banks. Together with its subsidiaries, it forms the Deka group. With total assets of around EUR 220 billion (as at 31.12.2014) and around 4 million managed portfolios, it is one of the largest investment service providers in Germany. It offers a wide range of investment products and services to private and institutional investors. The Deka Group's global real estate expertise is pooled into the Property Business Division.

www.dekabank.de

TRANSACTION MARKET IN BERLIN: INVESTMENT VOLUME SURGES TO RECORD LEVELS

Berlin attracts ever-stronger capital in-flows – compared with the previous year, Berlin's property investment market grew by around 19 % in 2014 and reached a transaction volume of nearly EUR 4.28 billion. This exceeds the 10-year average by 27 % and is the best result since 2007, the year before the global economic and financial crisis culminated, when EUR 6.88 billion were invested in Berlin's market.

Office properties still with lion's share of investment turnover

Although hotel properties, undeveloped land and mixed-use properties increased their share of Berlin's transaction volume significantly, the biggest slice was once again commanded by office properties, accounting for around 40 % of total investment volume in 2014. Rising demand and limited supply increased competition among investors, particularly in the core area.⁶³ The net initial yield for office properties in central locations fell accordingly from 5.3 %

Investment turnover by type of use in Berlin in million EUR

Year	Office	Retail	Logistics/ Light industrial	Hotels	Other	Total
2010	1,487	1,376	71	72	167	3,173
2011	794	940	59	147	396	2,335
2012	1,881	1,153	83	432	300	3,848
2013	1,621	1,297	166	200	305	3,589
2014	1,720	888	187	351	1,131	4,276

Source: BNP Paribas Real Estate

With regard to invested capital, the continuing growth in 2013–2014 was primarily attributable to investment in hotel properties and the category “other properties”, which mainly includes undeveloped land and mixed-use properties. The boom in the capital's tourism industry was also reflected in the transaction volume – the investment in Berlin's hotels grew by 75 % compared to 2013. On the other hand, project developers rely on Berlin's continuing economic and demographic growth and are increasingly interested in undeveloped land.⁶²

to 4.6 % between 2010 and 2014, and the rate of return for office properties in Berlin's peripheral locations declined from 7.5 % to 6.8 %.⁶⁴ While in 2014, investment in office properties in Berlin increased by 6.1 % year on year, investment in retail properties fell sharply by more than 30 %.⁶⁵ This is mainly due to the fact that longterm buyers want to hold on to properties purchased in recent years⁶⁶, thus creating a supply constraint in the market.

⁶² BNP Paribas Real Estate (2015): Investment Market Germany – Property Report 2015

⁶³ BNP Paribas Real Estate (2015): Investment Market Germany – Property Report 2015

⁶⁴ Bulwiengesa, 2015

⁶⁵ BNP Paribas Real Estate

⁶⁶ CBRE (2015): Investmentmarkt Berlin [Investment market Berlin], Q4 2014

Even distribution of invested capital

Not a one-off phenomenon – the high investment volume in 2014 was much less attributable to large transactions in the hundreds of millions of euro than is the case in other cities. In Berlin, invested capital is distributed relatively evenly between various categories, with the highest share of turnover (28 %) being attributable to the EUR 50 to 100 million category. Deals worth more than EUR 100 million came in second (around 24 %). This low dependence on big transactions is characteristic of Berlin and can be viewed as a market strength.⁶⁷ Nevertheless, the market saw several key transactions in 2014 both in City West and City East. The “Upper West” project, which is currently being constructed near Berlin’s Gedächtniskirche [Memorial Church], was sold to the asset manager RFR Holding for EUR 250 million in one of the largest transactions in Berlin in 2014. In City East, the sale of “Hackesches Quartier” [shopping and entertainment centre] for over EUR 150 million was one of the most important transactions of the year.⁶⁸ Both properties exemplify the importance of mixed-use properties sold in Berlin in 2014. These sites blend commercial, office and hotel use.

Based on a stable labour market and low interest rates in the longer term, the international consulting firm BNP Paribas Real Estate anticipates transaction volume for 2015 to again be very high, far above the long-term average.⁶⁹ With a transaction volume of around EUR 1.3 billion, Berlin’s commercial property market recorded its best-ever first quarter. It even exceeded the 2007 boom year result by 6 %.⁷⁰

Service industry metropolis Berlin:

Commercial land prices higher

The services sector is Berlin’s power engine and an important source of value creation. Last year, real gross value added in Berlin’s services sector grew by 2 %, which was above the federal average of 1.4 %. Land prices reflect the strong demand for building land for service sector commercial space in the capital. While land prices for industrial centres and production-related businesses remained largely flat between 2013 and 2014, top prices for service sector space rose by a third from EUR 750 to 1,000/sqm. At the other end of the scale, lowest prices paid for service sector building land remained largely unchanged at EUR 220/sqm compared to 2012 and 2013 levels.

Commercial land prices in Berlin

City	Industrial sites	Space for production-related businesses	Commercial space for service-related businesses
Berlin	30–90	120–180	220–1,000
Trend	→	→	↗

Evolution of land prices in EUR/sqm

↗ rising land prices → flat land prices ↘ falling land prices

Sources: compiled from the Berlin Land Market Report 2014/15; IVD commercial price report 2014/2015; DIP market and facts 2015; Aengevelt City Report 2015; RDM price monitor 2014; own research

⁶⁷ BNP Paribas Real Estate (2015): Investment Market Germany – Property Report 2015

⁶⁸ Transaction list from bulwiengesa, 2015

⁶⁹ BNP Paribas Real Estate (2015): Investment Market Germany – Property Report 2015

⁷⁰ BNP Paribas Real Estate (2015): At a glance – investment market in Berlin Q1 2015

TRANSACTION MARKET IN EASTERN GERMANY: INVESTMENT TURNOVER DOUBLES

From the investor perspective, the appeal of commercial real estate markets outside the top German cities is increasing. According to a survey of 250 investors carried out by the accountancy and consulting firm PwC, the focus is now shifting towards B-rated cities, which is mainly due to the strong competition among investors for office and retail space in the major German cities. In contrast to big cities, regional players – including Dresden, Erfurt and Magdeburg – have lower transaction volumes and higher risks but also deliver the highest rent yields, according to the PwC survey.⁷¹ A look at the eastern German states (excluding Berlin) shows the growing interest in smaller markets. Investment turnover doubled here in 2014 compared to 2013 from EUR 1.36 to 2.7 billion.⁷² In 2014, Berlin's commercial land market recorded 477 transactions with turnover of EUR 2,606 million and a take-up volume of 268 ha. Compared to the previous year, turnover increased by 15 %, with Leipzig and Rostock seeing the largest increase in turnover by more than 25 %. With a turnover of EUR 371 and EUR 243 respectively, the two markets ranked second and third among the eastern German cities. Magdeburg recorded the lowest turnover in 2014 with EUR 8 million, representing a sharp decline compared to the previous year.

Transaction market in Leipzig: More transactions and higher investment volume across all market segments

Leipzig remains one of the most dynamic cities in Germany thanks to its above-average GDP and population growth, and is increasingly sought after by investors.⁷³ According to BNP Paribas Real Estate, investment volume in this city famous for its trade fairs doubled in 2014 compared to 2013. Last year, EUR 516 million was invested in commercial real estate in Leipzig, the bulk of which went into retail (36.6 %) and office properties (26.9 %).⁷⁴ Aside from the surge in deals and the dominance of small and

medium-sized investments under EUR 25 million, the high investment volume in 2014 was also due to some larger transactions. This includes the sale of the Petersbogen arcade as well as the acquisition of the Forum am Brühl by TLG IMMOBILIEN AG in the third quarter of 2014. The sale of the Petersbogen arcade in 2014 helped the retail segment to claim the 2014 top spot in terms of turnover share – only to overtaken again by office properties in the first quarter of 2015.⁷⁵ Growing investor interest in office properties in Leipzig is reflected in further declines in the net initial yield. The yield for offices in prime locations fell from 5.5 % to 5.3 % between the third quarter of 2014 and the first quarter of 2015.⁷⁶

Land prices for commercial space

	City	Commercial zone	Trend
BB	Potsdam	30–220	↗
MV	Rostock	20–60	↗
SN	Dresden	25–125	→
	Leipzig	15–90	↗
ST	Magdeburg	20–55	→
TH	Erfurt	18–40	↘
	Jena	60–190	→

Land prices in EUR/sqm

↗ rising land prices → flat land prices ↘ falling land prices

Sources: compiled from local land market reports; IVD-Gewerbe-Preisspiegel [IVD commercial price report] 2014/2015; Plötz Immobilienführer [Plötz Real] DIP Markt und Fakten [Market and facts] 2015; Aengevelt city report 2015; own research

⁷¹ PwC (2015): Real estate investor survey Germany

⁷² Savills (2015): Analysis for TLG IMMOBILIEN AG

⁷³ Aengevelt (2015): Press release dated 17.4.2015, Leipzig – Deutscher Umsatzanstieg [Leipzig – sharp increase in sales]

⁷⁴ BNP Paribas Real Estate (2015)

⁷⁵ BNP Paribas Real Estate (2015): At a glance – investment market Leipzig Q3 2014 and Q1 2015

⁷⁶ BNP Paribas Real Estate (2015): At a glance – investment market Leipzig Q3 2014 and Q1 2015

Increasing transaction volume in Dresden and Magdeburg

Both state capitals recorded growing transaction volumes between 2013 and 2014. The increase in commercial investment volume was most noticeable in Magdeburg. Compared to 2013, transaction volumes increased by 81 % to EUR 156 million in 2014 and exceeded the average levels of the last decade by about one third (avg. 2004–2013: around EUR 116 million per year). The increase in turnover was particularly evident in the office and commercial building segments. According to Aengevelt, Magdeburg recorded a EUR 119 million rise in this segment, up by 143 % compared to 2013.⁷⁷ Among the key transactions in Magdeburg was, for example, the acquisition of Ulrichshaus by an institutional fund from F&C REIT – an office and commercial building located centrally between the main train station and the River Elbe.⁷⁸

At just under 9 %, growth in turnover on the commercial investment market in Dresden was more moderate – transaction volume reached EUR 336 million, which is in line with the average for the last decade (avg. 2004–2013: EUR 337 million per year).⁷⁹ In addition, the Elbe metropolis recorded one of the biggest deals across all the eastern German cities in 2014: The Prague Carré project on Prager Strasse was sold for EUR 70 million.⁸⁰ The increasing shortage of core properties in Dresden is reflected in falling initial yields which are, nevertheless, still higher than the average. Market yields for commercial buildings in prime locations currently range between 6 % and 7.5 % – in the previous year they ranged between 6.5 % and 8.5 %. Initial yields for offices in Dresden range between 6.6 % and 7.5 % – at the start of 2014 the lower threshold was 7 %.⁸¹

Commercial land market 2014

	City	Number of transactions	Take-up volume	Turnover	Change in turnover
BB	Berlin	477	268 ha	EUR 2,606 million	↗
	Potsdam	80	40 ha	EUR 235 million	↑
MV	Rostock	390	67 ha	EUR 243 million	↑↑
SN	Dresden	118	71 ha	EUR 238 million	↗
	Leipzig	284	142 ha	EUR 371 million	↑↑
ST	Magdeburg	308	277 ha	EUR 8 million	↓↓
TH	Erfurt	65	23 ha	EUR 67 million	↓↓
	Jena	25	10 ha	EUR 38 million	↓

Change in turnover

↗ growing by up to 15 % ↑ growing by up to 25 % ↑↑ growing by more than 25 %

→ flat

↘ falling by up to 15 % ↓ falling by up to 25 % ↓↓ falling by more than 25 %

Source: local committees for land price valuation

⁷⁷ Aengevelt (2015): Press Release dated 07.05.2015, Magdeburg – Bestes Ergebnis seit 2007 [Best results since 2007]

⁷⁸ Transaction list from bulwiengesa, 2015

⁷⁹ Aengevelt (2015): Press release dated 21.4.2015, Dresden – high growth compared to 2 013

⁸⁰ Transaction list from bulwiengesa, 2015

⁸¹ Aengevelt (2015): Press release dated 21.4.2015, Dresden – high growth compared to 2013

BERLIN'S OFFICE MARKET CONTINUES TO GROW- AND RENTS FOLLOW SUIT

Berlin's economy has been booming for years. In 2014, real GDP in the capital grew by 2.2 % compared to the previous year, which is significantly higher than the German average (+1.6 %).⁸² On this basis, Berlin was ranked among the top states, just one place behind Baden Württemberg (+2.4 %).⁸³ The service sector, which is the powerhouse of Berlin's economy, outperformed Germany as a whole. Last year, the real gross value added in Berlin's services sector rose by 2 %, 0.6 percentage points above the federal average of 1.4 %.⁸⁴ The capital also recorded the most business start-ups in Germany. With 121 business start-ups per 10,000 inhabitants, Berlin was clearly ahead of second-placed Hamburg (101 start-ups per 10,000 inhabitants) as well as Germany as a whole (73 start-ups per 10,000 inhabitants).⁸⁵ While unemployment in Berlin remains higher than the German average (10.5 % compared to 6.2 % for Germany as a whole, as at June 2015)⁸⁶, employment has been rising at a steady pace since 2003. In 2014, the labour force grew by 1.8 %, which is 0.9 percentage points higher than the federal average growth rate of 0.9 %.⁸⁷ The service sector is the major driver of Berlin's economy and the local labour market. In 2014, around 88 % of those in employment worked in the service sector. Compared to the previous year, overall employment increased by 2 %. Retail, tourism and the hospitality industry, as well as the IT and communications sectors, recorded the fastest growth of 3 % respectively.⁸⁸ The Berlin office market is benefiting from the positive economic developments in the capital.

Berlin claims the top spot among the five largest office market locations in Germany

In 2014, Berlin's office market had approximately 18.7 million square metres of office space on offer⁸⁹, and reached a take-up volume of 609,000 square metres, which represents an increase of just under 34 % compared to the previous year.⁹⁰ These results place Berlin first among the five largest office market locations in Germany. The largest share of take-up volume is attributable to city locations, which include, among others, office market locations in Charlottenburg, Schöneberg and Wilmersdorf, as well as the main railway station, Checkpoint Charlie/Spittelmarkt and at Hackescher Markt.⁹¹ This positive development is mainly due to the dynamism of financial services sector, industry/construction, research and biotechnology, as well as technology, media and telecommunications.⁹²

The positive economic developments, particularly in the service sector, in recent years is reflected in the increasing number of office workers in Berlin. In 2014, there were about 695,400 office workers in the capital, placing Berlin in top position among major German cities. This is due to the sharp rise of 2.7 % in the number of office workers when compared to the previous year. Among the major eastern German cities, only Leipzig recorded a higher growth rate over the same period, with 3.9 %.⁹³

⁸² Federal Statistical Office

⁸³ Arbeitskreis "Volkswirtschaftliche Gesamtrechnungen der Länder" [Working Group on National Accounts of the German Länder]: Information prior to revision of national accounts in 2014

⁸⁴ Federal Statistical Office

⁸⁵ Federal Statistical Office

⁸⁶ Federal Employment Agency (Bundesagentur für Arbeit)

⁸⁷ Amt für Statistik Berlin-Brandenburg [Berlin-Brandenburg Statistics Office]

⁸⁸ Amt für Statistik Berlin-Brandenburg [Berlin-Brandenburg Statistics Office]

⁸⁹ bulwiengesa (purchased data)

⁹⁰ BNP Paribas RE, "Büromarkt Deutschland [office market Germany], Property Report 2015"

⁹¹ BNP Paribas RE, "Büromarkt Deutschland [office market Germany], Property Report 2015"

⁹² CBRE, "Vermietungsumsatz in den fünf großen Büromärkten fünf Prozent über Vorjahr" [Take-up volume in the five major office markets grows five percent year on year dated 8.1.2015]

⁹³ bulwiengesa (purchased data)

Drop in supply of available space

The average office vacancy rate in Berlin fell over three years by 2 percentage points, and in 2014 it stood at 5 %.⁹⁴ Despite falling vacancy rates in Berlin, in 2014 the volume of new construction remained at a relatively low level compared to demand. While space under construction increased by 6 % year on year to 286,000 square metres, the available supply of space decreased by 11 % due to marked falls in vacancy rates.⁹⁵

Average rents increase, prime rents stable

According to Savills, high demand was reflected in average rents for office space in Berlin, which increased by 7.3 % in 2014 compared to 2013. In the prime segment, however, the rents remained largely flat (+2.3 %).⁹⁶ According to forecasts by BNP Paribas Real Estate, prime rents are expected to increase in 2015, which is mainly due to the positive outlook for the Berlin economy, the growing demand and the low volume of available space.⁹⁷

Rents for office space in Berlin in prime office locations remained stable and ranged between EUR 20 and 23/sqm. The largest price increases were recorded in the prime locations of Potsdamer Platz and Leipziger Platz, where rents increased by 5 % year on year to EUR 23/sqm, and prime locations in City West and City East, where rents increased by 12 % to EUR 22 and 21.50/sqm. The area surrounding the main railway station was among the most expensive locations in the capital with rents of EUR 20.50/sqm.⁹⁸ Due to stable or rising rents, investors continue to view office properties in Berlin as very attractive – initial yields in central locations fell from 4.8 % in 2013 to 4.6 % in 2014.⁹⁹

In city centre locations, rents were relatively high and ranged between EUR 12 and 22/sqm. Rents vary depending on the build quality. Price increases were particularly dramatic in this segment. As a result, rents in Hackescher Markt and Charlottenburg recorded double-digit growth and reached EUR 19.50 and 14.50/sqm, respectively.¹⁰⁰ At the same time, rent levels in city fringe and peripheral locations remained stable at EUR 7.50–13/sqm and EUR 6–12/sqm, respectively. As the demand for office space in Berlin now also extends to B-rated locations, falling yields have also been recorded in peripheral office market locations – having fallen to 7.1 % in 2013, the initial yield decreased further in 2014 to 6.8 %.¹⁰¹

Rent ranges for office space in Berlin

Locations	Berlin
Prime office locations	20.00–23.00
City centre locations	12.00–22.00
City fringe locations	7.50–13.00
Peripheral locations	6.00–12.00

Sources: compiled from IVD commercial price report 2014/2015; Plötz Real Estate Guide 2015; DIP Market and Facts 2015; BNP Paribas Real Estate Property Report 2012/2015; CB Richard Ellis Berlin Office Market 2014; Savills Office Market Report 2014; Jones Lang LaSalle Retail and Office Profiles 2014; Engel & Volkers 2014–15; Colliers 2014/15; Aengevelt City Report 2015; guidelines published by IHK Berlin 2014; own research.

⁹⁴ bulwiengesa (purchase data)

⁹⁵ BNP Paribas RE, "Büromarkt Deutschland [office market Germany], Property Report 2015"

⁹⁶ Savills Research

⁹⁷ BNP Paribas RE, "Büromarkt Deutschland [office market Germany], Property Report 2015"

⁹⁸ BNP Paribas RE, "Büromarkt Deutschland [office market Germany], Property Report 2015"

⁹⁹ bulwiengesa (purchase data)

¹⁰⁰ BNP Paribas RE, "Büromarkt Deutschland [office market Germany], Property Report 2015"

¹⁰¹ bulwiengesa (purchase data)

OFFICE PROPERTY MARKET IN EASTERN GERMANY: GROWTH IN WHITE-COLLAR EMPLOYMENT REFLECTED IN DECREASING VACANCY RATES

The office property markets in eastern Germany have come a long way since the 1990s, which were characterised by an enormous oversupply that led to vacancy rates of 20–25 %. The supply surplus has declined significantly over the past ten years. The property markets in eastern Germany have benefited from the favourable conditions and growth in the German economy. The unemployment rate fell again significantly in all seven major cities under review. The steepest falls were recorded in Rostock, where the unemployment rate fell by 0.9 percentage points to 9.6 % in June 2015. As a result, unemployment is now under 10 % in six of the seven cities under review. Magdeburg is the exception with a rate of 10.7 %, but even here the number of unemployed was dropped markedly over the past year by 0.7 percentage points. With the exception of Potsdam, white-collar employment rose in the eastern German cities, with Leipzig and Jena showing the strongest growth rates, at close to 4 % and 2.6 % respectively. Employment has also increased in the Dresden and Rostock office markets, which grew by 1.6 % and 1.2 % respectively.

Vacancy rates fall in six of the seven major eastern German cities

As the construction of new offices does not quite keep up with growth in the number of employees, vacancy rates continued to fall last year in six of the seven cities. Leipzig was able to reduce the vacancy rate by 2.3 percentage points to 13.5 % as a result of its high growth in employment. This is the second-highest office vacancy rate by comparison (behind Erfurt with 15.8 %). The overall trend is still positive. At 4.9 %, Potsdam recorded the lowest supply surplus is in, benefiting as it does from its proximity to Berlin and its status as a state capital. Next came Rostock, with an office vacancy rate of 7.6 %.

While Rostock is not a state capital and does not have the same needs with regard to office space, it is still the most important economic centre in Mecklenburg-Vorpommern. Office vacancy rates in Magdeburg and Dresden were under the 10-percent mark with 9.4 % and 9.6 % respectively, while Jena still has room for improvement at 10.6 %. However, this Thuringian university city is also the smallest eastern German office market with office space below 490,000 square metres.

The main eastern Germany office locations are still Dresden and Leipzig with roughly 110,000 white-collar workers and around 2.7 million square metres of office space. While the demand for office space in Dresden as a state capital is based on public services, administration, universities and research institutes, the demand in Leipzig is driven by the categories “other services”, “consulting firms” and “management of industrial companies”.¹⁰²

Stable rents across the board, sharp rises in Potsdam

Despite the positive dynamics in the employment market, the property markets in eastern German cities were not affected as positively. In Dresden and Magdeburg, rent levels across all office segments remained flat compared to the previous year. In Dresden, rents for offices with good utility value remained stable at EUR 8.50–12/sqm, while in Magdeburg they fell to EUR 7.50 to 10.50/sqm. In contrast, top rents in Leipzig for offices with good utility value increased by around 4 % compared with 2013. Attractive space can command rents of between EUR 8.50 and 12.50/sqm, putting Leipzig in 2nd place behind Potsdam. Rostock commands very similar rents, which range between EUR 8.50 and 12/sqm. The Erfurt market for office space recorded a significant increase in rents for of-

¹⁰² BNP Paribas Real Estate: Office market Leipzig, Q1 2015

fices with fair to average utility value. These increased by 25 % from EUR 6 to 7.50/sqm. In Erfurt, administration/management and the service sector are among the most important employers, the evolution of which will have a significant impact on developments in the local office property markets going forward.

The most significant changes were once again reported in Potsdam where, despite the slight rise in excess supply, rents for offices with fair to average utility value as well as those with good utility value were on the rise. While top rents for offices with fair to average utility value increased by around 6 % up to EUR 9.50/sqm, rents for offices with good utility value rose by as much as 12.5 %. In 2014, these

properties were rented out for EUR 9.50 to 13.50/sqm. The Brandenburg state capital is therefore bucking the new trend of declining office employment. Traditionally, public administration and TMT (technology, media and telecommunications) sector companies are well represented in Potsdam. As several major projects are due to be completed in Potsdam in the coming years – e.g. the construction of the new Investitionsbank des Landes Brandenburg [Investment Bank of the Land of Brandenburg] building, this is likely to have a positive impact on the local economy.

Dresden: Margonhaus



KEY OFFICE MARKET INDICATORS

		No. of office workers (2014)	Office workers Change in % (2013/2014)	Vacancy rate in % (2014)	Vacancy rate Change in % (2011/2014)	Total office space in sqm (2014)	Total office space Change in % (2011/2014)
BB	Berlin	695,427	2.7	5.0	-2.0	18,736,911	1.5
	Potsdam	40,078	-1.1	4.9	0.5	1,321,305	1.1
MV	Rostock	38,888	1.2	7.6	-0.6	992,702	1.7
SN	Dresden	110,962	1.6	9.6	-1.0	2,683,958	-0.3
	Leipzig	110,034	3.9	13.5	-5.2	2,742,347	-1.1
ST	Magdeburg	45,910	0.4	9.4	-1.5	1,428,830	0.5
TH	Erfurt	52,176	0.7	15.8	-1.4	1,617,575	1.3
	Jena	24,747	2.6	10.6	-0.9	488,408	4.0

Source: bulwiengesa, 2015 (revised data for office workers in 2013)

RENT RANGES FOR OFFICE SPACE IN EASTERN GERMANY

	City	Fair to average utility value	Trend	Good utility value ²	Trend
BB	Potsdam	5.00–9.50	↗	9.50–13.50	↗
	Rostock	6.00–8.50	→	8.50–12.00	→
MV	Dresden	4.50–9.00	→	8.50–12.00	→
SN	Leipzig	5.00–8.50	→	8.50–12.50	↗
ST	Magdeburg	4.00–7.50	→	7.50–10.50	→
	Erfurt	4.50–7.50	↗	8.00–10.50	↗
TH	Jena	5.00–8.00	→	8.50–11.00	→

¹ Space on fringe of central business districts with contemporary facilities, not suitable for representative purposes

² Space in city centres and prime locations, mostly in newly built properties with state-of-the-art facilities

Rents in EUR/sqm

↗ rising rents → flat rents ↘ falling rents

The most important factors in calculating local office and retail commercial rents are location criteria followed by property size and type / quality of facilities. Price ranges are also provided in order to take into account variations in comparison criteria.

Sources: compiled from local land market reports; local IHK price reports; IVD commercial price report 2014/2015; Plötz Real Estate Guide 2015; DIP Markets and facts and city reports 2015; BNP Paribas real estate property report 2015; Aengevelt City reports 2015; Engel & Völkers 2014/15; own research

RETAIL PROPERTY MARKET IN BERLIN: RISING PRIME RENTS AND HIGH APPEAL TO INTERNATIONAL RETAILERS

Berlin's evolution into one of the world's most desirable cities – for tourists, students, migrants, businesses and real estate investors – continued in 2014. The population increased again by more than 40,000, the hotel and hospitality industry achieved new records in the number of overnight stays, and the number of students in the 2014/2015 winter semester grew by 3.2 % compared to the first semester of the previous year.¹⁰³ The number of unemployed dropped again – the unemployment rate fell between June 2014 and June 2015 from 11 % to 10.5 %.¹⁰⁴ Due to the improved employment situation in Berlin, retail spending per capita rose by 3.4 % in 2014 to EUR 5,493. Thanks to these factors, Berlin's retail sector with its numerous well-frequented shopping locations increased its sales by 1.3 %.¹⁰⁵

Higher rents in prime locations and central business districts

These positive developments were clearly noticeable on Berlin's market for retail properties. Retail rents in prime locations once again recorded the fastest growth in 2014. While in 2013 rents for larger prime spaces over 150 square metres rose from EUR 180 to 250/sqm year on year, in 2014, they climbed up to EUR 300/sqm. In central business districts outside Berlin's prime locations of Kurfürstendamm, Friedrichstrasse and Hackescher Markt, top rents increased by 4 % from EUR 120 to 125/sqm. At the same time, retail rents for smaller spaces up to 100 square metres in Berlin also showed significant growth. In Berlin's central business districts, prime rents in some cases reached EUR 180/sqm in 2014 – representing a year-on-year increase of 12.5 %. In key prime locations, rents for smaller spaces rose by 3.3 % and reached up to EUR 310 per square metre of retail space.

Berlin attracts international retailers and luxury brands

The rise in retail rents – particularly in the city's prime locations with high footfall – is mainly due to the enduring appeal of Berlin for retailers. According to Jones Lang LaSalle (JLL), Berlin and Munich are among the 10 most attractive retail locations in Europe. While London tops the rankings and is widely considered the best “springboard” for expansion into Europe thanks to its market size, high market transparency and retailer-friendly attitude, Berlin is also considered to be an important gateway city in this regard.¹⁰⁶ In particular, this applies to international luxury brands such as Dolce & Gabbana, Louis Vuitton and Prada, which besides Friedrichstrasse are also attracted to Kurfürstendamm. According to JLL, Kurfürstendamm has been gaining in importance over the past five to 10 years and is constantly evolving. Berlin has now closed the gap it previously had with Düsseldorf, Frankfurt, Hamburg and Munich with regard to luxury high street shopping. Of the 20 luxury brands with the highest concentration of shops in Europe, 15 are now present in Berlin. The reason for this development is that international brands choose their locations based not only on spending power, but also on the number of tourists, sophisticated commercial structures, as well as a successful blend of tradition and suitable architecture. In particular, the city's appeal for tourists has had a positive effect on the expansion decisions of international retailers, and this is one of Berlin's strengths. In 2014, the capital recorded close to 28.7 million overnight stays, representing almost 7 % of all overnight stays in Germany and thus securing the pole position for Berlin among German cities. By comparison, in 1992, Berlin's share was just 2.5 %.¹⁰⁷

¹⁰³ Amt für Statistik Berlin-Brandenburg (2015) [Berlin-Brandenburg Statistics Office]: press releases

¹⁰⁴ Bundesagentur für Arbeit [Federal Employment Agency], July 2015

¹⁰⁵ GfK GeoMarketing, 2015 and 2014

¹⁰⁶ JLL (2014): Press release of 27.11.2014, München und Berlin zählen zu den zehn attraktivsten Handelsstandorten Europas [Munich and Berlin among the 10 most attractive retail locations in Europe]

¹⁰⁷ JLL (2015): Press release of 10.3.2015, Berliner Ku'damm lockt internationale Luxuslabels [Berlin's Kurfürstendamm attracts international luxury labels]

KEY RETAIL MARKET INDICATORS

	Retail spending in EUR per inhabitant (2014)	Change in retail spending in EUR per inhabitant in % (2011/2014)	Retail turnover in EUR per inhabitant in % (2014)	Change in retail turnover in EUR per inhabitant in % (2011/2014)	Retail centrality (2014)	
BB MV	Berlin	5,493	8.8	5,182	2.1	105.2
	Potsdam	5,672	6.7	3,951	1.3	77.0
	Rostock	5,194	5.9	4,698	0.6	101.5
SN ST	Dresden	5,372	6.2	5,212	1.1	108.9
	Leipzig	5,161	8.3	4,728	0.1	104.4
	Magdeburg	5,150	4.6	5,513	-1.0	119.8
TH	Erfurt	5,233	3.0	5,466	2.4	116.2
	Jena	5,268	4.0	5,191	-1.1	110.0

Source: GfK GeoMarketing, 2015

RETAIL SPACE RENT RANGES IN BERLIN

Rents for retail space up to approx. 100 sqm

	Sub-centre	Central business district	Prime locations
Berlin East	10 – 40	40 – 140	140 – 230
Trend	↗	↗	➡
Berlin West	15 – 40	40 – 150	170 – 310
Trend	↗	↘	↗
Prime	75	180	330

Rents in EUR/sqm for retail space

↗ rising rents ➡ flat rents ↘ falling rents

Sources: compiled from IVD commercial property price report 2014/2013; Brockhoff rent index 2015; Plötz Real Estate Guide, 2015; DIP Market and Facts, 2015; BNP Paribas Real Estate Property Retail Report 2015; guidelines published by IHK Berlin 2014; own research. CBRE 2014; Aengevelt city report 2015; own research

Rents for retail space from 150 sqm

	Sub-centre	Central business district	Prime locations
Berlin	7 – 25	20 – 125	140 – 300
Trend	➡	↗	↗

Rents in EUR/sqm for retail space

↗ rising rents ➡ flat rents ↘ falling rents

Sources: compiled from IVD commercial property price report 2014/2015; guidelines published by IHK Berlin 2014; Brockhoff rent index 2015; Jones Lang LaSalle 2014; own research

RETAIL PROPERTY MARKET IN EASTERN GERMANY: RISING PURCHASING POWER AND GROWTH IN TOURISM

The retail sector in the eastern German cities was able to benefit from the positive market conditions in Germany. The boom in city tourism led to a rise in tourist numbers across all seven cities, with Dresden seeing overnight stays increase by 7.6 % year on year, followed by Magdeburg with 6.3 % and Rostock with 4.4 % respectively.¹⁰⁸ What is more, the cities also reported growth in their number of inhabitants – especially Leipzig with an increase of 2.3 % – and as at June 2015, the number of unemployed had fallen year on year in all seven major eastern German cities. As a result, retailers were able to benefit from rising incomes in addition to tourism-related consumption. Retail sector sales are also affected by growth in online retailing. However, food retailing remains virtually unaffected by this as its share of online retailing is only around 1 % of total sales. According to forecasts by the GfK, it is not expected to pass the 5 % mark within the next 10 years.¹⁰⁹

While retail spending power remains below the German average in most growth regions of eastern Germany, the annual per capita spending power of their inhabitants has now reached over EUR 5,150. At EUR 5,672 per head, Potsdam has now surpassed the German average of EUR 5,657 for the first time. With product range restrictions for shops in Potsdam's "Bahnhofspassagen" shopping arcade being relaxed last year, the Gesellschaft für Konsumforschung (GfK) [Society for Consumer Research] anticipates that sales will rise markedly in Potsdam in 2015, hand in hand with increased retail centrality.¹¹⁰ Fifteen new shops opened there on 4,500square metres of hitherto vacant retail space and now complement the range of products on offer.¹¹¹

Stable rents for small spaces, rent growth for large spaces in Potsdam, Leipzig and Dresden

The trend in retail rents across the seven analysed eastern German cities was largely stable to rising. As before, the highest rents are paid for city centre locations in Leipzig, Dresden and Erfurt. Noticeable is the lack of momentum with regard to smaller retail spaces up to 100square metres despite the favourable conditions. In this segment, rents have only increased in sub-centre locations in Dresden and Rostock, and in the central business district of Erfurt. Top rents reached EUR 120/sqm in Dresden, EUR 140/sqm in Leipzig and remained unchanged at EUR 150/sqm in Erfurt. It should be taken into account, however, that the rent ranges in traditional food retail spaces are lower.

Retail rents for larger spaces above 150square metres evolved more dynamically. Top rents could be increased by around 14 % up to EUR 40/sqm in Potsdam's central business district. In some isolated cases, rents even climbed to EUR 55/sqm. Only a year ago, top rents ranged between EUR 35 and 50/sqm. However, the range of rents charged for sub-centre locations in Potsdam has fallen from EUR 6–12/sqm in 2013 to EUR 6–10.50/sqm in 2014. The outlook for the central shopping locations in Potsdam remains positive for the current year.¹¹²

The highest rents for large retail spaces are paid in Leipzig, with top rents reaching EUR 85/sqm. Last year, they rose once again by around 6 %. The highest rents are charged in central locations e.g. Petersstraße and Grimmaischen Straße which are set to benefit from the opening of the city tunnel and the completion of several projects, such as the "Handelshof" and the new university building at Augustusplatz.¹¹³ Taking into account the 3 % year-on-year rise in the per capita retail spending power of Leipzig's inhabitants,

¹⁰⁸ Statistische Landesämter

¹⁰⁹ GfK Prognose 2025 Online-Anteil am Gesamtumsatz

¹¹⁰ GfK GeoMarketing

¹¹¹ Comfort: Comfort Städte Report Potsdam, 2014

¹¹² Comfort: Comfort Städte Report Potsdam, 2014

¹¹³ BNP Paribas Real Estate: Frequenzreport Leipzig, Q2 2014 UND Aengevelt Research, Pressemitteilung vom 17.4.2015

the growing appeal of the Saxon capital for domestic and foreign tourists and the various projects currently under development¹¹⁴, it can be assumed that the high demand for retail space and the positive outlook for the retail property market in Leipzig will continue.

In Dresden, rents of up to EUR 65/sqm in expensive central business district locations remained comparably stable in 2014. The comparison of seven major cities has revealed

that rents for large retail spaces in sub-centre locations in Dresden increased by more than 40%. While in 2013 the rent range span was EUR 11/sqm, a year later it had climbed to EUR 16/sqm. As rents in the central business district remained largely flat, this is an indication that the retailers' focus in Dresden has shifted towards sub-centre locations. However, projects such as "Prager Carée" and "Jüdenhof", which put the Dresden city centre on the map as an attractive shopping destination for domestic and international retailers, rents in the central shopping locations of Dresden are likely to rise in the medium term.¹¹⁵ Other positive factors include the city's rising appeal for tourists and its pull effect with regard to the surrounding areas. This is because, with Dresden's good retail centrality of around 109, stores and shops in Dresden have a great pull power for surrounding communities.

Rents for smaller retail spaces in the Hanseatic City of Rostock are also stable or on the rise. Interestingly, rents have mainly been rising in sub-centre locations. Top rents for larger areas over 150 square metres reached EUR 11.50/sqm, representing a 4.5% increase compared to the previous year. Rents for smaller spaces of up to 100 square metres in sub-centre locations have increased by around one-third from a maximum of EUR 30 to 40/sqm. This may be attributable, among other factors, to the expansion of the Ostsee Park in Rostock-Sievershagen and the Warnow Park in the Lütten Klein district, which are located in a key location on the city fringe of Rostock.¹¹⁶



¹¹⁴ Aengevelt research, press release dated 17.4.2015

¹¹⁵ Comfort: Comfort City Report Dresden, 2014

¹¹⁶ Comfort: Comfort City Report Rostock, 2014

RENT RANGES FOR RETAIL SPACE IN EASTERN GERMANY

Rents for smaller retail spaces – up to approx. 100 sqm

	City	Sub-centre ¹	Trend	Central business district ²	Trend	Top prices
BB	Potsdam	9.00–15.00	➔	18.00–80.00	➔	80
MV	Rostock	10.00–40.00	↗	40.00–80.00	↗	90
SN	Dresden	10.00–40.00	↗	50.00–110.00	➔	120
	Leipzig	15.00–40.00	➔	45.00–130.00	➔	140
ST	Magdeburg	7.00–20.00	➔	15.00–55.00	➔	60
TH	Erfurt	5.00–12.00	➔	35.00–120.00	↗	150
	Jena	8.00–12.00	➔	25.00–60.00	➔	60

Rents for larger retail spaces – from approx. 150 sqm

	City	Sub-centre ¹	Trend	Central business district ²	Trend	Top prices
BB	Potsdam	6.00–10.50	↘	10.00–40.00	↗	55
MV	Rostock	8.00–11.50	➔	11.00–50.00	➔	60
SN	Dresden	7.00–16.00	↗	40.00–65.00	➔	70
	Leipzig	8.00–16.00	↘	40.00–85.00	➔	110
ST	Magdeburg	4.50–6.50	➔	11.00–20.00	➔	25
TH	Erfurt	5.00–8.00	↘	40.00–60.00	↘	100
	Jena	6.00–10.00	➔	15.00–35.00	↗	38

¹ Space in a good location within closed residential quarters or in district centres

² Area in a central inner-city location with high footfall and a broad range of sectors

Rents in EUR/sqm

↗ rising rents ➔ flat rents ↘ falling rents

The most important factors in calculating local office and retail commercial rents are location criteria, followed by property size and the type / quality of facilities. Price range is also provided in order to take into account variations in comparison criteria.

Sources: compiled from local property market reports, local chamber of commerce price reports; IVD commercial price report 2014/2015; Plötz real estate guide 2015; Brockhoff rent index 2015. DIP Markets and Facts and DIP City Reports 2015; BNP Paribas Real Estate Property Report 2014; Aengevelt City Reports 2015; Jones Lang LaSalle 2014; Engel & Völkers Retail Opportunities 2014; CBRE 2014; Cushmann & Wakefield 2014; own research.

BERLIN: DESPITE COMPETITIVE PRESSURES HIGHER ROOM REVENUES AND OCCUPANCY



Berlin: Ramada Hotel

Berlin is Germany's top travel destination, registering another record in the number of overnight stays in 2014. Over this period, some 12 million tourists checked into Berlin's hotels, translating into 28.7 million overnight stays. This means that in Berlin, the number of overnight stays has more than doubled since 2004 – compared with the previous year this figure increased by 6.5%.¹¹⁷ According to accounting and consulting firm PwC, overnight stays in Berlin are forecast to exceed the 30 million mark by 2016.¹¹⁸ This means that Berlin has a good chance to move closer to Paris in the rankings. Measured by the volume of overnight stays, Paris came in second with 36 million overnight stays in 2014, while London claimed the top spot with 53 million overnight stays.¹¹⁹

Berlin's tourism has a broad, diversified base

Berlin's main characteristic and advantage as a tourist destination is its more or less equal appeal to business and leisure travellers. Business travel demand is mainly based on Berlin's growing economy, trade shows as well as it being the home of various political institutions and research facilities. Demand in the leisure segment is based on Berlin's historical significance as well as the numerous cultural events and sights.¹²⁰ According to a survey conducted by the German National Tourist Board (GNTB) in 2014, which asked 11,000 visitors to Germany about their favourite sights in the capital, the top 10 highlights included the Brandenburg Gate (4th place), the Berlin Wall/East Side Gallery (5th place), and the World Heritage Museum Island (10th place). Berlin also claims the top spot among conference and congress destinations:

¹¹⁷ Visit Berlin (2015): Berlin in the rankings – the German capital in national and international comparison, Amt für Statistik Berlin-Brandenburg [Berlin-Brandenburg Statistics Office]

¹¹⁸ PwC (2015): Room for growth – European cities hotel forecast for 2015 and 2016 for 20 gateway cities from Amsterdam to Zurich, p. 32

¹¹⁹ Tagesspiegel of 19.02.2015: "Rekordzahlen in der Hauptstadt – Touristen lieben Berlin" [The capital attracts a record number of tourists]

¹²⁰ Colliers International (2014): Hotelmarkt Berlin [Hotel property market in Berlin] 2014/2015

In 2014, 11 million participants visited some 131,000 events (+4 %) in the German capital, representing an increase of 3 % year on year. The conference and convention market generated 7 million overnight stays for the first time, representing a 4.5 % increase compared to 2013.¹²¹

Rise in key hotel market indicators underlines positive business outlook

Because of Berlin's enduring appeal to both business and leisure travellers, it tends to have higher and more stable occupancy rates than, for example, Frankfurt, which is mainly frequented by business travellers, who predominantly occupy hotel rooms on weekdays.¹²² Average occupancy rates in Berlin's hotels reached a record level of 74.2 % in 2014, which translated into a 7th place in the comparison of 20 hotel locations in Europe (1st place: London, 83 % occupancy). Compared to the previous year, room occupancy in Berlin rose by 1.5 percentage points in 2014. Despite increasing competition – according to the tourism data provider STR Globa, Berlin added a total of 1,700 new hotel rooms in 2014 – room revenues and average daily rates in Berlin have in part increased sharply in areas with high demand. While revenue per available room (RevPAR) climbed in Berlin between 2013 and 2014 by approximately 4.2 % to EUR 66.35, the average daily rate (ADR) over the same period reached EUR 89 (+2 %). While room rates across other German top destinations increased (with the exception of Cologne at EUR 88) with Munich at the top end of the scale at EUR 110, in some cases rates have actually fallen. Average daily rates in Frankfurt am Main fell by 2.6 % and in Cologne by 1 %, but remained largely flat in Munich. At EUR 89, average daily rates in Berlin are EUR 2 above the ADR for Germany as a whole.¹²³

Largest market for hotel investments – 2,800 rooms under construction or in planning¹²⁴

Berlin is the largest market for hotel investments in Germany, with a variety of new, trendy hotel projects such as the new Moxy hotels by the Marriott Group and IKEA. Due to stable or very high visitor numbers and overnight stays, as well as the long-anticipated BER Airport which is now due to open in 2017, Berlin is a particularly interesting investment destination for hotel chains.¹²⁵ The Steigenberger and Moxy hotel chains plan to open new hotels near the new airport in 2015.¹²⁶ However, new hotels are also being built in Berlin's City East and West central locations. A Riu Hotel and a Hilton Hotel with a capacity of 350 rooms will open close to Wittenberg Platz and Alexanderplatz in 2015 and 2018 respectively.¹²⁷ By far the biggest hotel project in Berlin is the Motel One Upper West near the Gedächtniskirche [Memorial Church] with a capacity of around 580 rooms on 18 floors. It is expected to open its doors in 2016.¹²⁸

¹²¹ Visit Berlin (2015): Berlin in the rankings – the German capital in national and international comparison, Amt für Statistik Berlin-Brandenburg [Berlin-Brandenburg Statistics Office]

¹²² Haufe (2015): Berliner Hotels verzeichnen Besucherrekorde [Hotels in Berlin welcome record number of visitors] from 3.3.2015, available at: http://www.haufe.de/immobilien/entwicklung-vermarktung/marktanalysen/pwc-berliner-hotels-verzeichnen-besucher-rekorde_84324_295310.html, accessed on 5.6.2015

¹²³ Colliers International (2014): Hotelmarkt Berlin [Hotel market in Berlin] 2014/2015, PwC (2015): Room for growth – European cities hotel forecast for 2015 and 2016 for 20 gateway cities from Amsterdam to Zurich, STR Global 2015

¹²⁴ PwC (2015): Room for growth – European cities hotel forecast for 2015 and 2016 for 20 gateway cities from Amsterdam to Zürich, S. 32

¹²⁵ Colliers International (2014): Hotelmarkt Berlin [Hotel property market in Berlin] 2014/2015

¹²⁶ http://www.ahgz.de/neueroeffnungen/moxy-soll-im-fruehjahr-2015-in-deutschland-starten_200012210155.html, accessed on 5.6.2015; <http://www.steigenbergerhotelgroup.com/documents/10516/15303/Region+Berlin.pdf>, accessed on 5.6.2015

¹²⁷ <http://www.riu.com/de/Paises/deutschland/berlin/hotel-riu-plaza-berlin/>, accessed on 5.6.2015, http://www.haufe.de/immobilien/entwicklung-vermarktung/in-berlin-entsteht-weltweit-groessteshampton-by-hilton_262_295336.html/ and <http://www.superior-hotel.net/home/groesstes-hampton-by-hilton-soll-in-berlin-entstehen/>, accessed on 5.6.2015

¹²⁸ CBRE: Hotelmarkt Deutschland [Hotel property market Germany] Market View 2013, figure relating to Frankfurt on p. 4, figure relating to Düsseldorf on p. 3. <http://www.upper-west.de/> and <http://press.visitberlin.de/de/pressemeldung/neues-aus-der-city-west>, accessed on 5.6.2015, booking.com and hotelreservierung.de

HOTEL MARKET IN EASTERN GERMANY: DRESDEN, LEIPZIG AND ROSTOCK SETTING THE PACE

The German hotel property market is still one of the most attractive markets in Europe, contributing to the appeal of the eastern German markets as a whole. Among the top 10 cities with the most hotel project developments is Leipzig, with almost 1,000 new rooms and Dresden with 400, which puts them in the 7th and 9th place respectively – between Düsseldorf and Cologne.¹²⁹ Next year, 166 rooms will be opened at the Adina Apartment Hotel in Leipzig and around 100 rooms at the Amedia Hotel Jüdenhof in Dresden.¹³⁰

Dresden and Leipzig are increasingly evolving into tourist magnets, and in 2014 they recorded the highest number of overnight stays of all the eastern German cities (excluding Berlin) with a combined total of 7.2 million. Last year Dresden, in particular, attracted significantly higher numbers of visitors than in 2013. Overnight stays increased by 7.6 %, which was the sharpest rise recorded in any major eastern German city, including Berlin.

Dresden, Leipzig and Rostock profitable, Magdeburg's growing appeal

All other eastern German cities analysed here saw the number of overnight stays increase last year. Somewhat surprisingly, Magdeburg ranks second with a rise of 6.3 % compared to 2013. Rostock recorded 1.9 million overnight stays, representing an increase of 4.4 %. The growing tourist appeal of Magdeburg is also reflected in the evolution of key hotel market indicators: Hotels in the state capital of Saxony-Anhalt were able to increase their average revenue per available room (RevPAR) by 10 % last year. At EUR 29.45 per room, prices are at the bottom of the scale compared with other eastern German cities. As in the previous year,

hotels in Rostock and Leipzig recorded the highest revenue with EUR 63.78 and EUR 52.25 respectively. It is therefore hardly surprising that hotels in these two cities achieved the highest room occupancy rates and average daily rates close to 69 % and EUR 92.91 (Rostock) and EUR 75.82 (Leipzig) respectively. Having increased its occupancy rate substantially to just under 67 % in 2014, Dresden commanded the third highest average daily rate of EUR 72.20.

This would suggest that Dresden, Leipzig and Rostock remain the most successful hotel markets in eastern Germany. This is due to their appeal as tourist destinations featuring numerous historical and cultural sights or an attractive seaside location. Nevertheless, Magdeburg is catching up fast.

While Potsdam's hotel market ranks in the middle of the pack, Erfurt again trails the other markets

Potsdam ranks in the middle of the table. However, the occupancy rate has risen noticeably in the state capital of Brandenburg. After a sharp increase by 3.6 percentage points, it reached 64.4 % in 2014. Over the past year, hotels in Potsdam markedly increased their revenue per available room. The RevPAR increased by 4.4 % from EUR 43.26 per room to EUR 45.15. Compared to other eastern German cities, hotel rooms in Magdeburg and Erfurt continued to generate lower revenues. With a slight decline in key hotel market indicators, Erfurt is among the worst performing eastern German cities. Average revenue per room in Erfurt's hotels decreased by 1.3 % to EUR 38.07. The occupancy rate also fell slightly by 0.6 percentage points to 62.8 % in line with room rates, which declined by 0.4 % to an average of EUR 60.66.¹³¹

¹²⁹ www.tophotelprojects.com/de/wieviele-hotels-werden-noch-deutschland-gebaut; accessed 29.5.2015

¹³⁰ www.hotelier.de/hotellerie/hotelgewerbe/38086-neue-hotels-geplante-hotels-hotelneubau-hotelprojekte-und-hoteleroeffnungen#Deutschland; accessed on 29.5.2015

¹³¹ All figures from STR Global, 2015

KEY HOTEL MARKET INDICATORS

		Number of overnight stays (2014)	Overnight stays. change in % (2011–2014)	Average occupancy rate in % (2014)	Revenue per room in EUR. (RevPAR) (2014)	Average room price in EUR. ADR (2014)
BB	Berlin	28,688,700	28.3	74.2	66.35	89.39
	Potsdam	1,035,800	13.8	64.4	45.15	70.15
MV	Rostock	1,898,000	25.5	68.6	63.78	92.91
SN	Dresden	4,441,896	16.9	66.9	48.30	72.20
	Leipzig	2,764,851	29.5	68.9	52.25	75.82
ST	Magdeburg	569,791	7.0	48.0	29.45	61.35
TH	Erfurt	772,487	6.4	62.8	38.07	60.66
	Jena	313,100	2.6	n/a	n/a	n/a

Sources: Statistische Landesämter [Statistical Offices of the German Länder], STR Global

Hotel price ranges by star rating (1/2, 3, 4/5) in Berlin and eastern Germany in 2015 (on a double room basis)

		* * *	Trend	* * *	Trend	* * * * * * * * *	Trend
BB	Berlin	32–160	➔	35–300	↗	50–615	↗
	Potsdam	55–100	➔	55–155	↗	60–180	↗
MV	Rostock*	30–90	➔	45–125	↘	60–320	↗
SN	Dresden	35–85	➔	35–125	➔	45–220	➔
	Leipzig	30–100	↗	38–150	↗	40–190	➔
ST	Magdeburg	40–66	➔	50–108	↘	55–135	↘
TH	Erfurt	44–84	↗	64–150	↗	75–175	↗
	Jena	45–79	↗	55–80	↘	65–130	↗

* including Warnemünde

Double or twin room based on two persons sharing, bath or shower and WC, including trade fair prices, updated regularly. Observation days: 15.3/ 28.3/ 12.4/ 26.4/ 10.5/ 24.5, 15.3 Leipzig Book Fair

Source: Holiday Check, hotel.de, hrs.de, booking.com, hotelreservierung.de own calculations.

Hotel prices in EUR ↗ rising hotel prices ➔ flat hotel prices ↘ falling hotel prices

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