REECOX

DEUTSCHE HYPO REAL ESTATE ECONOMY INDEX

01-2018



Dear readers.

As a member of the board of managing directors of a german real estate bank with a European focus, I am delighted to an-

nounce an innovation. Each quarter, the Deutsche Hypo REECOX (Real Estate Economy Index) will give an overview of the respective real estate markets in Germany, the UK, France, Poland, Spain and the Netherlands, starting today. The index is made up of analogous country values for leading share indices and leading real estate market indices or equivalent business climate indicators, along with central bank and government bond interest rates.

Following a record year in 2017, the REECOX is now showing a negative development for the first quarter of 2018 in all real estate markets. This has lasted for at least three months with only brief interruptions. Has the turnaround in the current cycle of the European real estate market, which has lasted so long, perhaps already occurred?



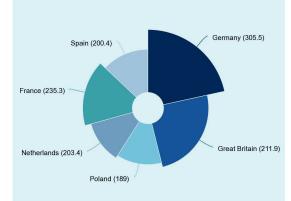
DEUTSCHE HYPO EURO-SCORE 241,6

EUROPEAN REAL ESTATE ECONOMY INDEX MOVES ON FROM ALL-TIME HIGH

At the end of last year, the European Real Estate Economy Index reached an all-time high, with a Euro Score of approximately 250. For the performance indicator for Europe's most important real estate markets, this marked the end of an upward rally that had been almost uninterrupted since 2012. In the first guarter of 2018 there were initial signs of a weakening trend. The current REECOX Euro Score is 241.6 index points – the lowest value since May 2017. That represents a decrease of 3.3 % or 8.1 points since the end of 2017. At first glance there appears to be no clear reason for the current decline. All six countries observed are showing a negative development compared to both the previous month and the previous guarter. At -4.2 %, the decline between December 2017 and March 2018 was strongest in the UK, with France close behind at -3.9 %. Poland showed the most stable development where the real estate market contracted by only 0.1 %. The

Netherlands were also still above average at -1.7 %, with Germany positioned in the mid-range at -2.6 %. When taking a closer look at the development over the last few months and quarters, it is evident that the decline had already set in earlier at various times in the individual countries. Spain, France and Poland already showed negative signs towards the end of the third quarter. Although Spain has not seen a recovery since then, the other countries have since been showing positive indications in at least some of the months surveyed. The decline in Germany and Poland has been the most moderate so far, with Spain, the UK and France performing worse than the Euro Score overall. However, the absolute level must of course be taken into account when it comes to interpretations. As a stabilising force, Poland also has the smallest real estate market. France and the UK, on the other hand, have the biggest real estate markets after Germany.





The Deutsche Hypo REECOX-Eye shows the current value of each real estate market compared to the others (length of iris) and the size of the respective investment market (breadth of iris).





SPANISH REAL ESTATE MARKET RECEDING AT SLOWER PACE

After constantly losing steam since the third quarter of 2017, the Spanish real estate market has now begun to stabilise towards the end of the first quarter of 2018. Although it continues to fall, the decline was much more moderate compared to the previous month at -0.3 %. Currently ranging at 200.4 points, it is practically at the previous year's level. Compared to the previous quarter, however, the decline is much sharper at -2.8 %.

This development was fuelled by the constant downward trend on the IBEX 35, which was lower each month during the last quarter. The closing on the last day of trading (29 March 2018) on the IBEX in March indicated a decline of 2.4 % to 9,600.4 points compared to last day of trading in February. Compared to the previous quarter, it fell an even steeper 4.4 %. The ES BCN 5 Property index on the other hand is more volatile. It gained 5.5 % to 1,057.9 points versus the previous month, but was down a considerable 11.4 % quarter-on-quarter. However, real estate experts do not rate the business sentiment to be that negative. The Economic Sentiment Indicator (ESI) was down 1.1 % to 109.0 points month-on-month, and showed a similar decline compared to the previous quarter (-0.9 %).

COMMENT ON THE MARKET



Maite Linares, Managing Director Office Madrid

"In view of the remarkable economic growth and huge interest among international investors, the transaction volume on the Spanish commercial real estate market has risen continuously. It amounted to € 13 billion in 2017. Compared to other European countries, the Spanish commercial real estate market has caught up considerably and is becoming increasingly important. However, a slight reticence was perceivable in the first quarter of 2018 which is reflected in the decline of the Spanish REECOX. The announced shift in the ECB's policy and the already high price level is prompting some investors to reposition themselves. Even if the fallout from the Catalan independence referendum at the end of last year was not as dramatic as initially feared, the political situation still bears a certain degree of uncertainty. Nevertheless, a similar transaction volume as in 2017 is projected for 2018 and I anticipate a good year for the sector despite some reticence in the first quarter."

"I anticipate a good year for the sector despite some reticence in the first quarter."

Key figures of the real estate economies

Country	Change of input variables in Q1					Values of the real estate economy	Values of the real estate economy		
	Leading share index	Real estate share index	Indicator of economic sentiment	Basic interest rate	Risk-free interest rate	Change of the real estate economy Q4/17 – Q1/18 Q4/17 Jan 18 Feb 18 Q1/18	∆ Q4/17 Q1/18		
Germany	7	7	7	\rightarrow	71	314 318 308 306	-8		
UK	7	7	7	\rightarrow	7	221 219 216 212	-9		
France	7	7	7	\rightarrow	71	245 244 237 235	-10		
Netherlands	7	7		\rightarrow		207 208 205 203	-4		
Poland	7	\rightarrow	7	\rightarrow	\rightarrow	189 194 191 189	0		
Spain	7	7	7	\rightarrow	7	Q4/17 Jan 18 Feb 18 Q1/18 206 205 201 200	-6		
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