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 announce 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?

Regards,
Sabine Barthauer

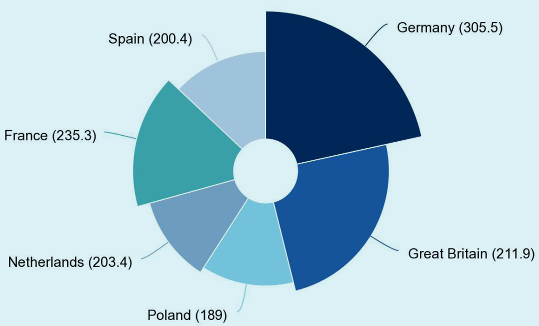
DEUTSCHE HYPO EURO-SCORE

241,6

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

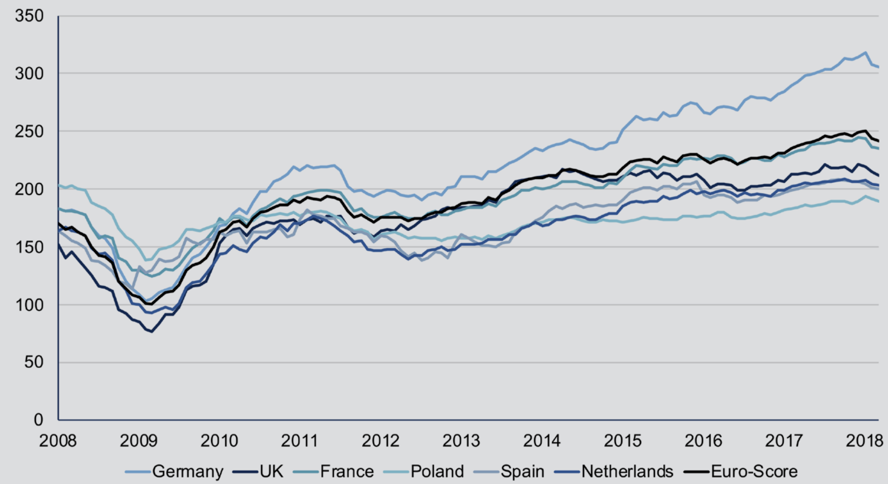
At the end of last year, the European Real Estate Economy Index reached an all-time high, with a Euro Score of approximately 250. For the performance indicator for Europe's most important real estate markets, this marked the end of an upward rally that had been almost uninterrupted since 2012. In the first quarter 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 quarter. 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.

DEUTSCHE HYPO REECOX-EYE



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).

Real estate economy until March 2018



FRENCH REAL ESTATE ECONOMY INDEX FOLLOWS EUROPEAN TREND

Like the Eurozone Index (Euro Score), the French Real Estate Economy Index is at a historic high. However, it has not escaped the general downward trend affecting the Real Estate Economy Indices. Compared to the previous quarter, the French Real Estate Economy Index fell consistently from month to month. In March 2018, the month-on-month decrease of 0.7 % reduced its level to 235.3 index points. That was the same level seen in the previous year (April 2017). The negative development over the quarter was significantly greater than from month to month. From the fourth quarter of 2017 to the first quarter of 2018 there was a drop of 3.9 %. Historically, the Real Estate Economy Index remains at a very high level – however, there are initial signs of a slowdown.

The constant decline of the benchmark CAC 40 stock index and FTSE EPRA/NAREIT France real estate index were largely responsible for this. The CAC 40 closed March at 5,167.3 points, which was 2.9 % lower compared to its February closing. A negative trend of -2.7 % is also evident compared to the previous quarter. At the same time, the FTSE EPRA/NAREIT also registered a downward trend. It is currently showing a 1.3 % decline over the previous month to 3,942.3 points. The quarter-on-quarter development is much more pronounced, where the index dropped 7.9 %. The subsiding real estate market is the result of a weakening in overall economic sentiment. Compared to the previous month, the Economic Sentiment Indicator (ESI) is showing a slight deterioration of 0.4 % to 109.5 points. When compared to the previous quarter, however, the decline is even sharper at 3.9 %.

COMMENT ON THE MARKET

Anne-Isabelle Carbonnières, Managing Director Office Paris

"2017 was an absolute record year for the commercial real estate market in France. The investment volume of € 26 billion and a historically low vacancy rate show just how attractive the French market is for investors. In the first quarter, the French REECOX fell slightly, which was most probably due to the slight increase in interest rates and volatility on the stock market. Despite this mild case of spring lethargy, I am confident for 2018. In particular, "Grand-Paris", Europe's largest infrastructure project, should provide key impetus for the French real estate market going forward. The project will involve considerable expansion of the infrastructure of the Paris metropolitan region, with plans for 200 km of new commuter train lines and 68 new stations. This will make Paris an even more important real estate location."

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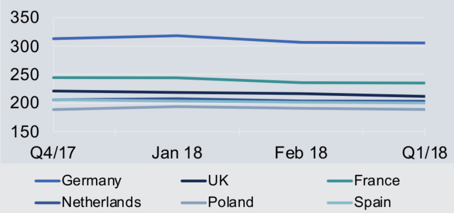
Key figures of the real estate economies

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



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