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?

Regards,
Sabine Barthauer Juliu Billul





DEUTSCHE HYPO EURO-SCORE

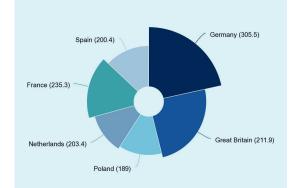
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EUROPEAN REAL ESTATE ECONOMY INDEX MOVES ON FROM ALL-TIME HIGH

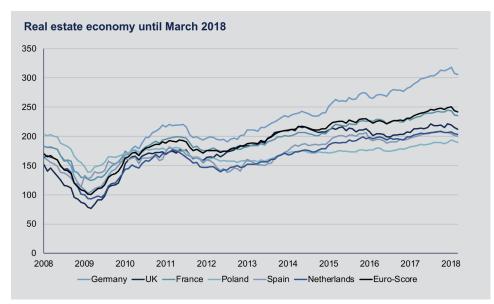
At the end of last year, the European Real Estate Economy Index reached an all-time high, with a Euro Score of approximately 250. For the performance indicator for Europe's most important real estate markets, this marked the end of an upward rally that had been almost uninterrupted since 2012. In the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

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 MARKET IN THE NETHERLANDS UNDER MOUNTING PRESSURE

While the second half of 2017 was extremely stable for the Dutch real estate market at around 207 points, the first quarter of 2018 is showing signs of mounting pressure on the real estate market: it has dropped 1.75 % to just above 200 points since the end of December. Does that mean a turnaround is imminent?

The fact that practically all input variables deteriorated was the main reason for this development. First and foremost, the constant decline of the Dutch real estate index FTSE EPRA/NA-REIT Netherlands had a dampening effect on the market. The index already dropped 2.5 % to 1,129.1 points compared to the previous month, and registered an even sharper quarter-on-quarter fall at 11.6 %. The subdued performance of the AEX 25 is also intensifying the negative trend on the Dutch real estate market, as it was down by 1.1 % on the previous month and 2.8 % quarter-on-quarter to 529.5 points. Overall economic sentiment from the ESI registered the only positive development compared to the previous quarter, but it displayed a mixed picture during the first few months of 2018. While it was 0.4 % lower month-on-month (March 2018: 112.8 points), the index gained slightly by 0.7 % compared to the previous quarter.

COMMENT ON THE MARKET



Wouter de Bever, Managing Director Office Amsterdam

"Even though the Dutch REECOX was unable to sustain its high prior-year level at the beginning of the year, the overall conditions for our sector remain positive. The economy is growing and unemployment continues to decline. The current real estate cycle is riding high, and many opportunistic investors are looking for ways to invest during this market phase. There is still plenty of liquidity on the market, but a growing number of investors are playing it safe, so to speak. The number of transactions is no longer rising, although there is huge demand, especially in the residential sector. We need a lot more apartments in the Netherlands, but the approval procedure takes too long. I would like to see things speed up soon in this respect."

"A growing number of investors are playing it safe."

Key figures of the real estate economies

Change of input variables in Q1					Values of the real estate economy					
ading 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
71	7	71	\rightarrow	7	350	314	318	308	306	-8
7	7	7	\rightarrow	7		221	219	216	212	-9
71	7	7	\rightarrow	7		245	244	237	235	-10
7	7		\rightarrow			207	208	205	203	-4
7	\rightarrow	7	\rightarrow	\rightarrow		189	194	191	189	0
7	7	7	\rightarrow	7	Q4/17 Jan 18 Feb 18 Q1/18	206	205	201	200	-6
a	index y y y y y	index share index y y y y y y y y y y	ading snare index share index sentiment sentim	ading snare index share index sentiment sentim	ading snare index share index share index sentiment sentiment sentiment sentiment sentiment share index sentiment se	Adding share index Real estate share index sentiment Adding share index share index sentiment Basic interest rate interest rate Adding share index share index sentiment Basic interest rate Adding share index share index sentiment Basic interest rate Adding share index share index sentiment Adding share index share index sentiment Basic interest rate Adding share index share index sentiment Adding share ind	Adding share index Real estate share index Risk-free interest rate 24/17 – Q1/18 Q4/17 Q4/17	ading share index Real estate share index Real estate share index Real estate economic sentiment Risk-free interest rate Q4/17 – Q1/18 Q4/17 Jan 18 314 318 314 318 314 318 314 318 321 221 219 314 318 221 219 315 316 245 244 316 317 318 318 317 318 318 318 318 318 318 318 319 319 319 318 310 318 318 318 310 318 318 318 310 318 318 318 310 318 318 318 310 318 318 318 310 318 318 318 310 318 318 318 318 310 318 318 318 318 31	Real estate share index Risk-free interest rate Risk-free intere	Real estate Share index Share index Real estate Share index Share index

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