# 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

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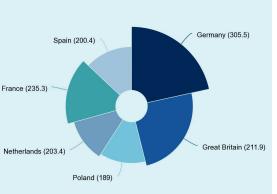
deutsche hypo euro-score **241,6** 

# 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 REECOX real estate 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).



# POLISH REAL ESTATE MARKET ALMOST STABLE

The real estate market declined only marginally compared to the previous quarter by 0.15 %, from just under 194 to 189 points. This is mainly due to the strong January which, taken by itself, recorded growth of around 2.5 % above the 2017 year-end figure. The two following months were marked by waning momentum, however. With a 6.5 % contraction compared to the previous month, March 2018 registered a sharper decline to 189.0 points. Whether this was a case of the beginning of the year blues or a trend reversal remains to be seen during the coming months and quarters.

The constant decline of the WIG 20 was largely responsible for this development. The closing price on the last day of trading in March indicated a month-on-month decrease of 6.5 % to 2,210.4 points. It was down by even more compared to the previous quarter, with a drop of 10 %. Poland's business sentiment currently underscores the downturn on the real estate market. It is currently showing a 1.8 % decline compared to the previous month, with a level of 110.0 points. The quarter-on-quarter comparison is much more positive, where the index gained 3.1 %. Meanwhile, the WIG real estate index had a balancing effect. It displayed a certain degree of stability with slight gains of 0.3 % month-on-month and 0.2 % compared to the previous quarter to 2,202.4 points.

# **COMMENT ON THE MARKET**



Managing Director Office Warsaw "The REECOX shows that the Polish real estate market stagnated during the first quarter of 2018 – but at a sustained high level. There is still a great deal of optimism on the market. We are currently seeing a growing number of international investors from the US, Canada, South Africa and Asia, for example, who – in an increasingly unstable political world – are seeking safe investments in Warsaw and other major Polish cities. Demand for high-quality properties considerably outstrips supply, however. The result is rising prices and lower yields. It is more important than ever to prepare detailed market analyses before deciding to buy! Prices are set to increase even further going forward as construction costs are expected to rise in the foreseeable future. This is not least due to the fact that there is a growing shortage of qualified labour and that contractors are having to pay their best employees more and more just to keep them."

# "It is now more important than ever to prepare detailed market analyses before deciding to buy!"

#### Key figures of the real estate economies

Country	Change of input variables in Q1						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	2	7	2	$\rightarrow$	2	350	314	318	308	306	-8
UK	<b>N</b>	2	2	$\rightarrow$	2	300	221	219	216	212	-9
France	<b>N</b>	2	2	$\rightarrow$	2	250	245	244	237	235	-10
Netherlands	2	2		$\rightarrow$		200	207	208	205	203	-4
Poland	<b>N</b>	$\rightarrow$	7	$\rightarrow$	$\rightarrow$	150	189	194	191	189	0
Spain	<b>N</b>	2	2	$\rightarrow$	2	Q4/17 Jan 18 Feb 18 Q1/18	206	205	201	200	-6
Source: bulwiengesa A	G					GermanyUKFrance NetherlandsPolandSpain					

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