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 auarter, 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 Calaire BULLU

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 guarters, 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 guarter. 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 UK MARKED BY CONTINUED DECLINE

Brexit only had a negative impact on the British real estate market in a few cases last year. In fact it grew almost constantly until the fourth quarter of 2017. However, it has been contracting ever since. The UK real estate market stood at 211.9 points during the first quarter of 2018, which is roughly the same level as one year ago. The development at quarter level is even more pronounced than a month-on-month comparison. The market registered a decline of 4.2 % between the fourth quarter of 2017 and the first quarter of 2018. As a result, the gains achieved during 2017 as a whole were almost completely obliterated in the first quarter of 2018.

Due to the nature of our Index REECOX, the main reason for its lower level was the constant decline of the FTSE 100 and business sentiment in the UK. The closing price on the FTSE 100 on the last day of trading in March indicated a month-on-month drop of 2.4 % to 7,056.6 points. A negative trend is also evident in a quarter-by-quarter comparison. In December 2017, the index stood at 7,687.8 points which equates to a decline of 8.2 %. Furthermore, the negative sentiment as based on the Economic Sentiment Indicator (ESI) has also intensified sharply. It is currently indicating a 3.8 % decline compared to the previous month to 105.3 points. The quarter-on-quarter comparison is much more pronounced – by this measure, sentiment dropped 5.8 %.

COMMENT ON THE MARKET



General Manager of

London Branche

"Since the British narrowly voted in favour of leaving the EU just under two years ago, BREXIT remains the predominant issue. However, the actual implications are still not clear, and the negotiations are likely to last another two years. Although the REECOX has been subsiding in the UK since the beginning of the year, I do not expect to see any major changes on the market in the short term. Rather, a sideways moving trend has been visible for some time and is likely to continue. Despite the possibility of BREXIT, the UK still ranks among the world's largest economies and remains a highly attractive investment market, especially for international investors. In view of this, I remain cautiously optimistic."

"The UK is and remains a highly attractive investment market."

Key figures of the real estate economies

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	Q4/17 314	Jan 18 318	Feb 18	Q1/18	∆ Q4/17 Q1/18
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2		\rightarrow			207	208	205	203	-4
\rightarrow	7	\rightarrow	\rightarrow		189	194	191	189	0
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