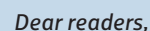




02-2018



The European real estate market currently presents itself as extremely resilient. While we observed a negative development of the REECOX in the first quarter of the year, we are now almost back at the level of last year.

It almost seems as if nothing could shock the market. However, the ongoing trade dispute between the US and China (and Europe) is indeed a cause for concern. Both the German and the European real estate sectors are built on an open European market. The loss of free world trade would have fatal consequences, and not just for the real estate sector. Europe's economy appears intact. It is now up to politicians to create stable and secure conditions for the future, too.

Kind regards,
Sabine Barthauer

Jabine Bach

DEUTSCHE HYPO EURO-SCORE

246,5

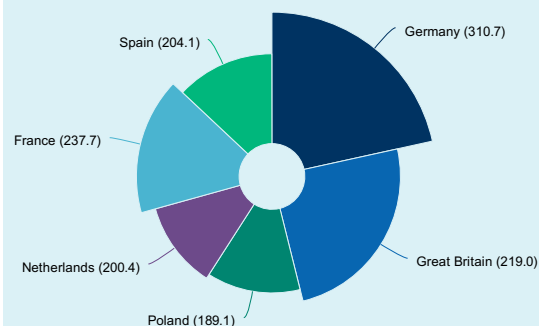
EURO SCORE POSTS GAINS AGAIN IN Q2

European real estate markets have seen rapid, positive development since mid-2016. The first downward trend in quite some time emerged in the first quarter of 2018 but did not continue in the second quarter. April saw a significant rally following the dip in the previous months, and the rest of the quarter posted mostly positive development. The REECOX Euro Score currently stands at 246.5 points, which corresponds to growth of 2.0 %, or 4.9 points, compared to the first quarter. It remains to be seen how the Euro Score develops moving forward. A clear trend is not discernible at the present time. However, the real estate market remains at one of the highest levels of all times.

With the exception of the Netherlands, development was positive over the quarter in all of the countries investigated. The substantial 3.4 % rise in

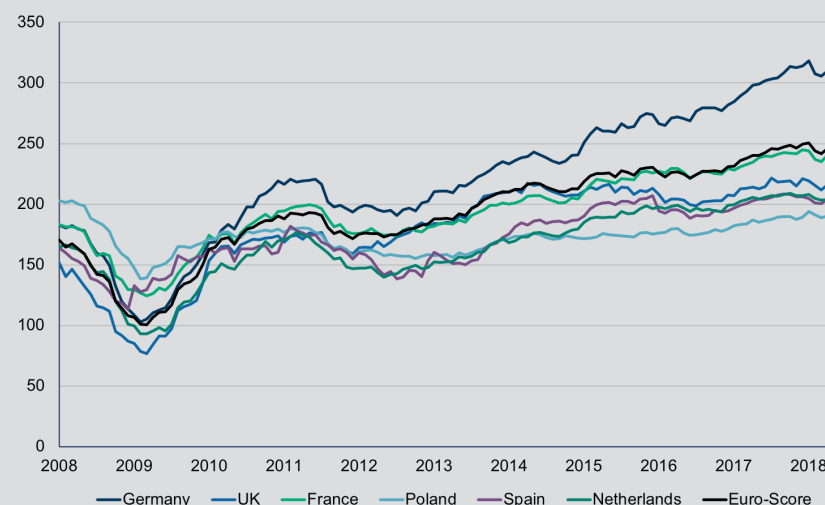
the UK real estate market, which has a major impact on the calculation of the Euro Score due to its size and the corresponding weighting, stands out. Real estate market development in the second-largest European market, Germany, was also positive. Despite seeing a particularly pronounced decline at the start of the year, the value of 310.7 in Q2 was up 1.7 % on the previous quarter, placing it above the level recorded in September 2017.

A look at the month-on-month development, however, paints a different picture than the performance on a quarterly basis. Compared to May, the countries observed saw a trend towards stagnation or even a slight decline in June. Spain, where the market recovered to a 1.8 % growth following a weak May, was an exception to the rule.

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 June 2018





REAL ESTATE MARKET PICKS UP STEAM AGAIN

The real estate market in Germany finished the second quarter of 2018 at 310.7 points, an increase of 1.7 % compared to the previous quarter, which came in at just 305.5. Particularly, April showed the most significant rise of +1.4 %. Growth stood at 0.4 % in May before showing a slight decline of 0.2 % in June.

The recovery of the DAX and the continued rise in the DIMAX were the main driving forces behind the positive development overall, which however, weakened towards the end of the quarter. Over the quarter, the DAX gained 1.9 %. Yet, the German benchmark index closed at 12,325.1 points on the final day of trading in June for a month-on-month decline of 2.7 %. The DIMAX posted positive performance in each month of the second quarter, gaining 1.6 % in June to close at 811.8 points for a pronounced 5.5 % increase compared to the previous quarter. Compared to the previous quarter the slight decrease in interest rates for 10-year government bonds also provided tailwind for the real estate market. Following an overall drop at the start of the year, the Economic Sentiment Indicator (ESI) posted gains in the first two months of the second quarter before falling by 0.7 % in June. All told, the ESI therefore saw a minimal decline of 0.1 % to 111.9 points compared to the first quarter.

COMMENT ON THE MARKET

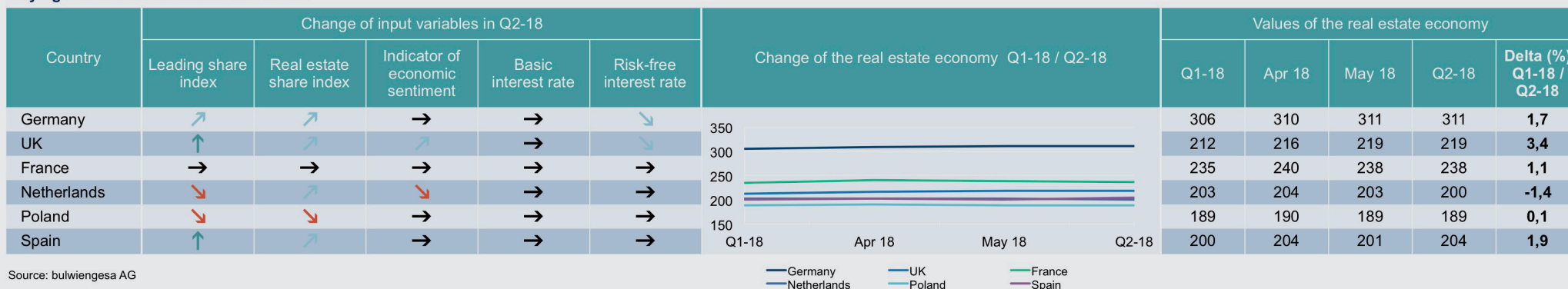


Ingo Albert, Head of Frankfurt Office

“Anyone prophesying an end to the bull market in the commercial real estate sector at the start of the year has been silenced by the second quarter. The 1.7 % rise in the real estate market in Germany compared to the previous quarter shows that we have yet to peak in the current cycle, as does the continued high level of momentum in the German commercial investment market. The transaction volume of € 25.1 billion in the first half of 2018 fell only slightly below the record seen in the previous year. The seven German real estate strongholds in particular have so far posted above-average figures this year. The positive development is attributable not least to continued high demand among international investors, who account for more than 40 % of transaction volume. Here in Frankfurt too, international capital is increasingly looking for attractive investment options – the larger they are, the more interesting.”

“We have yet to peak in the current cycle.”

Key figures of the real estate economies



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