



REECOX

DEUTSCHE HYPO
REAL ESTATE ECONOMY INDEX

02-2018



Dear readers,

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

DEUTSCHE HYPO EURO-SCORE

246,5

EURO SCORE POSTS GAINS AGAIN IN Q2

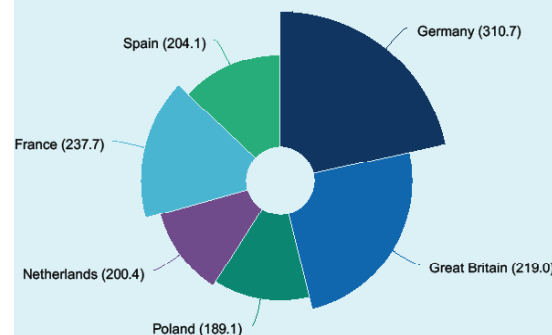
European real estate markets have seen rapid, positive development since mid-2016. The first downward trend in quite some time emerged in the first quarter of 2018 but did not continue in the second quarter. April saw a significant rally following the dip in the previous months, and the rest of the quarter 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.

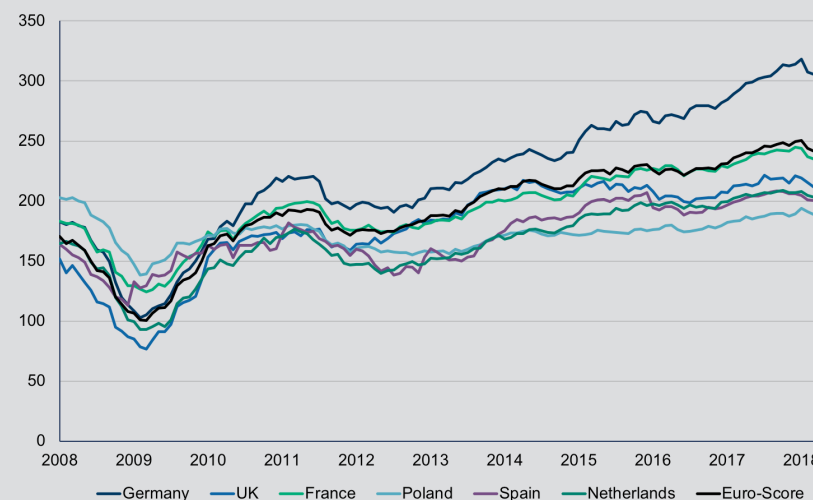
A look at the month-on-month development, however, paints a different picture than the performance on a quarterly basis. Compared to May, the countries observed saw a trend towards stagnation or even a slight decline in June. Spain, where the market recovered to a 1.8 % growth following a weak May, was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

DEUTSCHE HYPO REECOX-EYE



The 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).

Real estate economy until June 2018





STAGNATION AT A HIGH LEVEL

Compared to the rest of Europe, the real estate market development was less volatile in Poland, with few changes compared to the previous month (no change) and the previous quarter (+0.1 %). At 189.1, the current value remains high from a long-term perspective.

The Polish real estate market's persistence is mainly reflected in the interest rate structure components. Base rate derivatives and government bond interest rates alike are on par with the level seen in the previous month. While base rate derivatives are already stable in the long term, and were so already in the previous quarter as well, the base rate is currently stabilising with values rising slightly once again. The economic climate parallels the development seen in the recent past. With regard to the Economic Sentiment Indicator, the months of the first half of the year, and of the first quarter in particular, were significantly more positive than in the past year. This stands in contrast to the performance of equity markets, which have seen a trend towards negative development compared to previous quarters. Both components essentially balance each other out. As a result, the Polish real estate market, at 189.1, has seen very stable development and has remained around the all-time high from January (193.9).

COMMENT ON THE MARKET



Beata Latoszek,
Managing Director
Office Warsaw

“Like virtually no other, the Polish real estate market appears to be a haven of stability. For the second quarter in a row, the real estate market here remains close to its all-time high. The conditions are also really good: Poland’s economy is growing steadily by around 5 %, and massive investments are under way. The transaction volume in Poland’s commercial real estate market rose again in the first half of 2018. However, it has become apparent that real estate investors are increasingly delaying their purchasing decisions. The reason? The prices are higher than they have been in ten years and are pushing returns further and further down. In view of all this, I’m curious to see whether the REECOX will be able to maintain its level in the quarters ahead. Right now, only portfolios, consisting of various different asset classes and locations, are seeing an increase in investor interest.”

“Right now, only portfolios are seeing an increase in investor interest.”

Key figures of the real estate economies

Country	Change of input variables in Q2-18					Change of the real estate economy Q1-18 / Q2-18	Values of the real estate economy				
	Leading share index	Real estate share index	Indicator of economic sentiment	Basic interest rate	Risk-free interest rate		Q1-18	Apr 18	May 18	Q2-18	Delta (%) Q1-18 / Q2-18
Germany	↗	↗	→	→	↘		306	310	311	311	1,7
UK	↗	↗	↗	→	↘		212	216	219	219	3,4
France	→	→	→	→	→		235	240	238	238	1,1
Netherlands	↘	↗	↘	→	→		203	204	203	200	-1,4
Poland	↘	↘	→	→	→		189	190	189	189	0,1
Spain	↗	↗	→	→	→		200	204	201	204	1,9

Source: bulwiengesa AG

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