



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

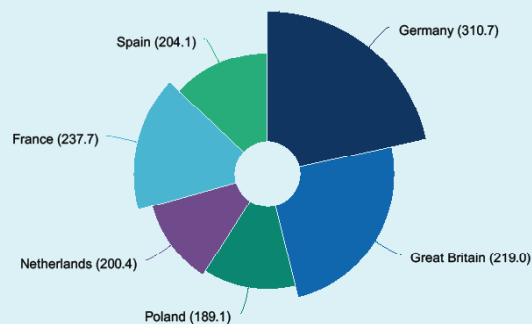
European real estate markets have seen rapid, positive development since mid-2016. The first downward trend in quite some time emerged in the first quarter of 2018 but did not continue in the second quarter. April saw a significant rally following the dip in the previous months, and the rest of the quarter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

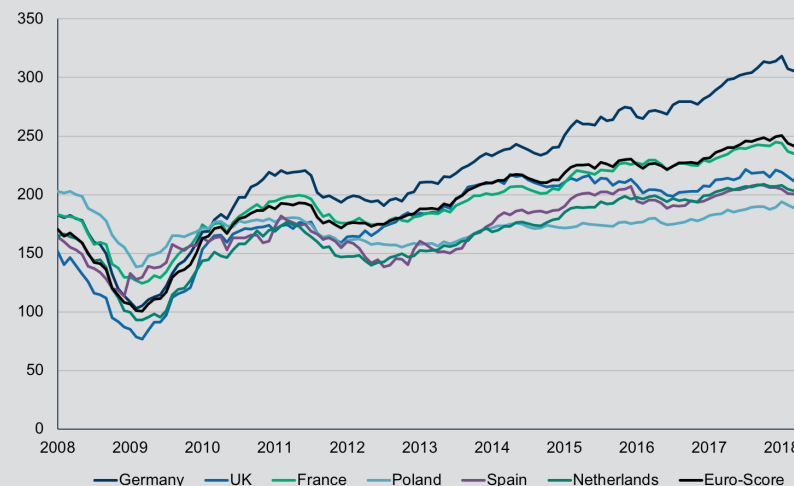
A look at the month-on-month development, however, paints a different picture than the performance on a quarterly basis. Compared to May, the countries observed saw a trend towards stagnation or even a slight decline in June. Spain, where the market recovered to a 1.8 % growth following a weak May, was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

DEUTSCHE HYPO REECOX-EYE



The 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





UK REAL ESTATE MARKET BACK IN THE FAST LANE

Following a marked drop in the first quarter, the UK real estate market staged a recovery in the second quarter. At 219.0 points, it is now back where it was at the start of the year, thereby continuing the previous year's positive development overall despite Brexit. Compared to the first quarter, growth stood at a comparatively strong 3.4 %. This pronounced dynamic development mainly took place in the months of April and May, whereas June saw a slight decrease of 0.1 %.

This development was fuelled by all indicators taken into account. The British benchmark index, the FTSE 100, performed strongly in April (+6.4 %) and May (+2.2 %) in particular. In June, however, it posted subdued development and nearly stagnated at 0.1 %. Compared to the previous quarter, the rate of increase stood at a whopping 8.9 %, making it possible to compensate for the substantial drop at the start of the year. At 7,687.99, the value is now on par with the high of December 2017. With a 4.6 % rise in April, the FTSE EPRA/NAREIT UK real estate index also saw positive development. At the same time, the months of May and June each witnessed a decline of 0.8 %. Compared to the same quarter of the previous year, however, the development was positive with an increase of 2.9 % to 1,286.1 points.

COMMENT ON THE MARKET



Markus Nitsche,
General Manager of
London Branche

“We saw a very strong second quarter, especially on the London real estate market, with major office transactions, among other things. Since this helped to compensate for the unusually quiet first quarter, transaction volume was constant compared to the first half of the previous year. Brexit hangs over our heads like a sword of Damocles, of course. Despite the now public white paper, it is still far from clear what course the UK's exit from the EU is going to take. Nonetheless, the British real estate market appears resilient, especially in London. In addition, larger regions are benefiting from increased residential construction and major infrastructure projects. This development is also reflected in our REECO. Sentiment is good, which probably ultimately has something to do with the unusually warm summer by British standards and the good showing of the Three Lions at the World Cup.”

“Brexit hangs over our heads like a sword of Damocles.”

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

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— Germany — UK — France
— Netherlands — Poland — Spain

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