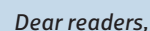




03-2018



this year's EXPO
REAL trade fair
impressively de-
monstrated that the
real estate sector is
performing very well

in all of Europe's core markets. We have recently concluded a large number of transactions, and we had specific discussions about many more in Munich. The continued dynamism of the market is reflected in the development of our REECOX: The Euro Score has decreased by just 0.5 %, meaning it continues to maintain its historic high. Europe currently faces numerous challenges, particularly in the political sphere. However, with regard to the economy, all the signs indicate that Europe does not need to be concerned about the real estate sector at the moment, one of its most important industries. In the six markets we observe, the economic conditions are good to very good. And, following a successful EXPO REAL, we can say that there is a confident mood – in all locations and perhaps more than ever.

Kind regards,
Sabine Barthauer

Sabine Bucher

DEUTSCHE HYPO EURO-SCORE

245.4

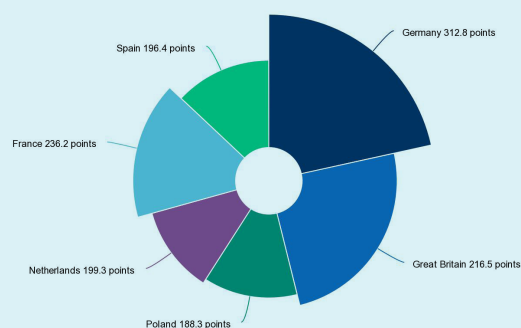
EURO SCORE STAGNATES IN THE THIRD QUARTER

After continuous positive development since mid-2016, the European Real Estate Economy Index (REECOX Euro Score) decreased for the first time in the first quarter of 2018. But the second quarter laid rest to the assumption of a general change in trend in the European real estate sector. There was again no clear trend in the third quarter. While the Euro Score displayed de facto negative development, the slight 0.5 % decrease suggests more of a stagnation than a downward development. Development also varied during the quarter: While the months of July (+0.5 %) and August (+0.5 %) were positive, there was a month-on-month decrease of 1 % in September, representing a comparatively negative trend. The REECOX Euro Score currently stands at 245.4 points. Considering the ambivalent development in the first half of the year, it remains to be seen

which direction the REECOX Euro Score will take in the future. Even though there is an increasing number of negative signs, a clear trend cannot be determined. From a historical perspective, the European Real Estate Economy Index continues to maintain a very high level.

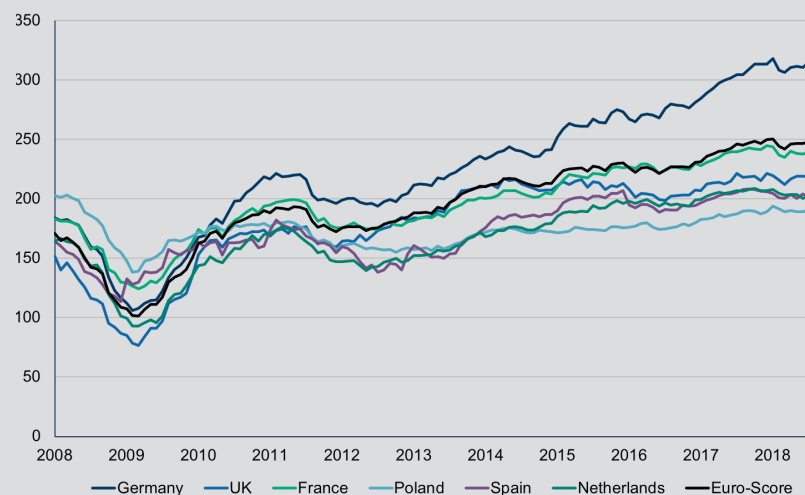
With the exception of Germany, the real estate economy indices for the countries included in REECOX displayed de facto negative development compared to the second quarter, although the development of many countries was closer to stagnation. In Spain the decrease of 3.8 % was comparatively significant. However, in September the real estate economy indices of all the countries observed presented a slightly gloomier picture compared to the previous month.

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 September 2018





DUTCH REAL ESTATE ECONOMY INDEX SHOWS CONSISTENCY

After the Dutch Real Estate Economy Index reached its all-time peak last year, passing the 200-point mark and climbing to more than 208 points, it has fallen considerably since the beginning of the year. At the end of the third quarter it was just below the 200-point mark, at 199.3 points. Compared to the previous quarter, that equates to a slight decrease of 0.6 %, which is in effect constant. The Dutch Real Estate Economy Index therefore reflected the development of the Euro Score.

The initial REECOX variables were generally diversified. The Dutch leading index AEX 25 is currently extremely volatile: Following a sharp decline in June, it rose by 13.2 % in July, before falling again in the following months. By comparison, the third quarter ended at 549.6 points, representing a growth of 8.4 %. Meanwhile, the real estate share index FTSE EPRA/NAREIT Netherlands could not maintain the level reached in the previous quarter. There were particularly significant losses in August and September. At the end of September, the third quarter closed at 1,057.3 points, a decline of 8.6 % compared to the second quarter. The recent negative trend in the business climate does not appear to be solidifying. The assessment of real estate experts as reflected by the Economic Sentiment Indicator (ESI) resulted in a level of 109.5 points in September, an increase of 0.1 % compared to the previous month and a slight decrease of 0.4 % compared to the previous quarter.

COMMENT ON THE MARKET



Wouter de Bever,
Managing Director
Office Amsterdam

“The Real Estate Economy Index for the Netherlands remains at a very high level, despite the slight decrease in the REECOX in the third quarter. Investor demand in the country remains high but there is a lack of available properties in many places. Pressure on returns is constantly increasing: We are now seeing returns of just over 3 % for prime properties. However, this year the volume of transactions will again exceed EUR 20 billion. High demand for almost all asset classes can be observed. Only the retail sector requires a more differentiated view: While properties in prime locations are performing well, the situation in B and C locations is more difficult. The fact that the dividend tax, which was under discussion, has not been introduced resulted in a positive market reaction, naturally above all from REITs.”

“We are now seeing returns of just over 3 % for prime properties.”

Key figures of the real estate economies

Country	Change of input variables in Q3-18					Change of the real estate economy Q2-18 / Q3-18	Values of the real estate economy				
	Leading share index	Real estate share index	Indicator of economic sentiment	Basic interest rate	Risk-free interest rate		Q2-18	Jul 18	Aug 18	Q3-18	Delta (%) Q2-18 / Q3-18
Germany	→	↗	→	→	→	350	311	315	316	313	0,7
UK	↘	↘	↗	↗	↗	300	219	219	219	216	-1,1
France	↗	↘	↘	→	→	250	238	239	238	236	-0,6
Netherlands	↗	↘	→	→	→	200	200	202	201	199	-0,6
Poland	↗	↘	↘	→	→	150	189	191	190	188	-0,4
Spain	↘	↘	↘	→	→	150	204	201	199	196	-3,8

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— Netherlands — Poland — Spain

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