



REECOX

DEUTSCHE HYPO
REAL ESTATE ECONOMY INDEX

03-2018



Dear readers,

this year's EXPO REAL trade fair impressively demonstrated 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

DEUTSCHE HYPO EURO-SCORE

245.4

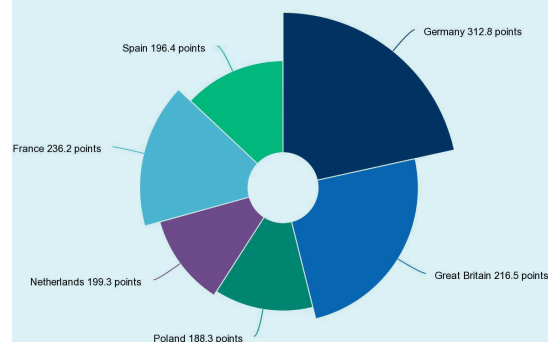
EURO SCORE STAGNATES IN THE THIRD QUARTER

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.

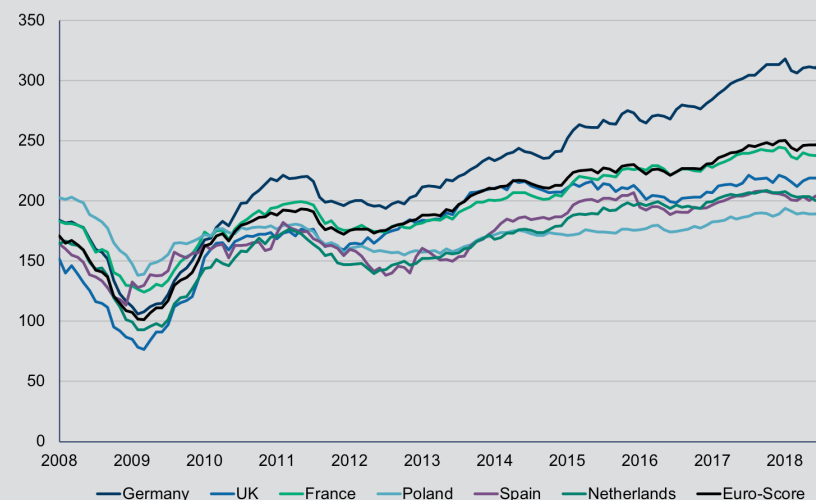
With the exception of Germany, the real estate economy indices for the countries included in REECOX displayed de facto negative development compared to the second quarter, although the development of many countries was closer to stagnation. In Spain the decrease of 3.8 % was comparatively significant. 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 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 September 2018





POLISH REAL ESTATE ECONOMY INDEX MAINTAINS ITS HIGH LEVEL

The Polish Real Estate Economy Index remained largely stable in the third quarter. Compared to the previous quarter it decreased by just 0.4 %, outperforming the Euro Score As with the Euro Score, there was a relatively large decline in September. The current level of the index, at 188.3 points, continues to be historically high.

The initial REECOX variables have developed in opposite directions. On the one hand, the leading share index WIG 20 performed positively. While at the end of September it had fallen by 2.3 % compared to the previous month, to 2,285.1 points, it had also risen by 7 % overall compared to the previous quarter because of the positive development in July 2018. Meanwhile, the WIG real estate index continued its decline. It fell by 2.8 % and 2.6 % respectively compared to the previous month and quarter, to its current level of 2,033.9 points. The Polish business climate index also declined. It decreased by 1.1 % compared to the previous month, and currently stands at 107.7 points. There was also a negative development in the real estate index resulting in a loss of 2 % compared to the previous quarter.

COMMENT ON THE MARKET



Beata Latoszek,
Managing Director
Office Warsaw

“It is noteworthy how investment interest in the Polish real estate market has grown. That was clear at the EXPO REAL trade fair in Munich. Above all, international investors are looking more closely at Poland. There is a particular focus on office and logistics properties. But residential property construction is also of interest to many investors because they want to diversify their portfolios to the greatest possible extent. The current conditions in the Polish real estate market could hardly be better, and the continued high level of our REECOX reflects that. However, a certain amount of scepticism is advisable when making forecasts: On the one hand, the lack of workers in the construction industry is leading to ever higher building costs. On the other, the scandal surrounding the company GetBack is having a negative impact on the market for corporate bonds, so that many investors are struggling to raise capital. I fear that this will result in projects taking longer to complete.”

“I fear that projects will take longer to complete.”

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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