



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

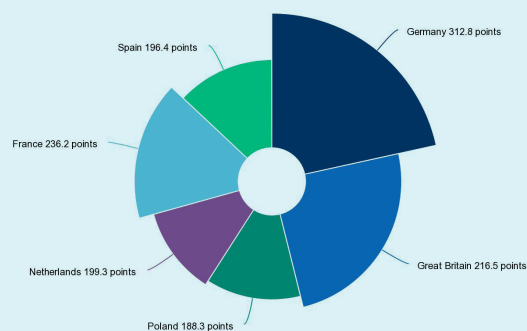
EURO SCORE STAGNATES IN THE THIRD QUARTER

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.

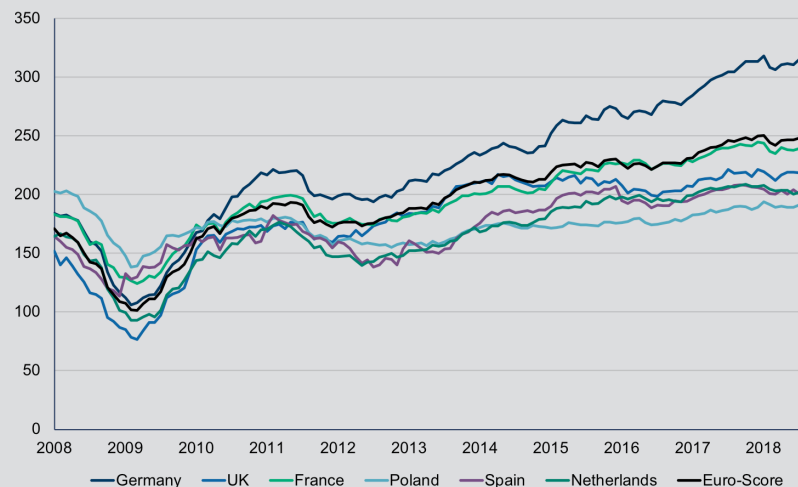
With the exception of Germany, the real estate economy indices for the countries included in REECOX displayed de facto negative development compared to the second quarter, although the development of many countries was closer to stagnation. In Spain the decrease of 3.8 % was comparatively significant.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





UK REAL ESTATE ECONOMY INDEX STABLE

After very positive development in the second quarter, the UK Real Estate Economy Index “normalised” again in the third quarter. At 216.5 points it is slightly below its level in the second quarter (-1.1 %), but maintained its overall high level despite Brexit.

The development of the contributing indicators varied strongly. Due to a significant fall (-4.1 %) in August, the UK’s leading share index, the FTSE 100, displayed negative overall development to 7,510.2 points. That represents a decrease of 2.3 % compared to the previous quarter. The development of the FTSE EPRA/NAREIT UK real estate index was even more striking: it was negative during entire third quarter. Compared to the previous quarter, the decline of 6.5 % to 1,203.1 points was therefore significantly negative. Meanwhile, the business climate index appeared unfazed by Brexit and developments on the stock markets: The assessments of real estate experts reflected by the Economic Sentiment Indicator (ESI) developed positively again in the third quarter. Its current level of 108.4 points represented an increase of 1.4 % compared to the previous quarter.

COMMENT ON THE MARKET



Markus Niitsche,
General Manager of
London Branche

“The overall transaction volume on the real estate market in the United Kingdom decreased slightly in 2018 – even in London. But, of course, its very high level has to be taken into account: Despite the decline, London remains the top investment location in Europe. To date, the uncertainty regarding the United Kingdom’s exit from the EU has not changed that. The market is transparent and we have observed brisk investment activity. Many investors are, above all, shifting their focus to rental apartment construction. That is not only because this asset class would be less strongly impacted if the United Kingdom was to leave the EU. Demographic changes and general price development mean there is solid potential for growth in this area. As a whole, the market has proved to be resilient. The rest is down to the politicians.”

“Many investors are shifting their focus to rental apartment construction.”

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

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