REECOX

DEUTSCHE HYPO
REAL ESTATE ECONOMY INDEX

04-2018

Dear readers,

the decrease in the Deutsche Hypo REECOX in the fourth quarter of 2018 is the largest since 2011. At first glance that development might seem a little surprising, as commercial real estate markets in the most important European states are still running well.

But when taking a second look, the current development of the REECOX was to be expected. If we consider the neverending chaos surrounding the Brexit, the social challenges in many European countries or the reduced growth forecasts. The fact that the stock markets are collapsing in this difficult environment, along with the Deutsche Hypo REECOX, is certainly alarming. But it is also understandable.

Kind regards,
Sabine Barthauer

Sabine Barthauer

DEUTSCHE HYPO EURO-SCORE

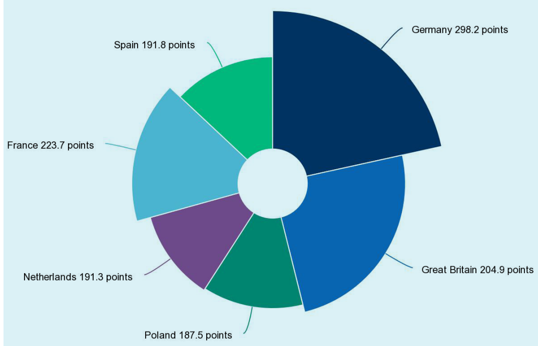
233.9

DEUTSCHE HYPO REECOX SEES DOWNTURN AT THE END OF THE YEAR

While recent quarterly reports have not displayed a clear trend, and the European Real Estate Economy Index (Euro Score) has fluctuated, the direction at the end of the year is unequivocal: the REECOX Euro Score currently lies at 233.9 points, its lowest level in two years. Seen retrospectively, this development began in September, when the index value decreased by 1.0 % compared to the previous month, ending the stagnation seen over the summer. By the end of the year, with decreases four months in a row, a dynamic had become established. Such distinct movement had not been seen since the first quarter of 2018, and before that mid-2016. In September the index was at 245.4 points, corresponding to a 4.7 % decrease. Overall the Euro Score fell by 6.3 % last year, the most significant annual decline since 2011. However, the key difference is that the REECOX stood at 172.2 points at the end of 2011 – compared to 233.9 points today.

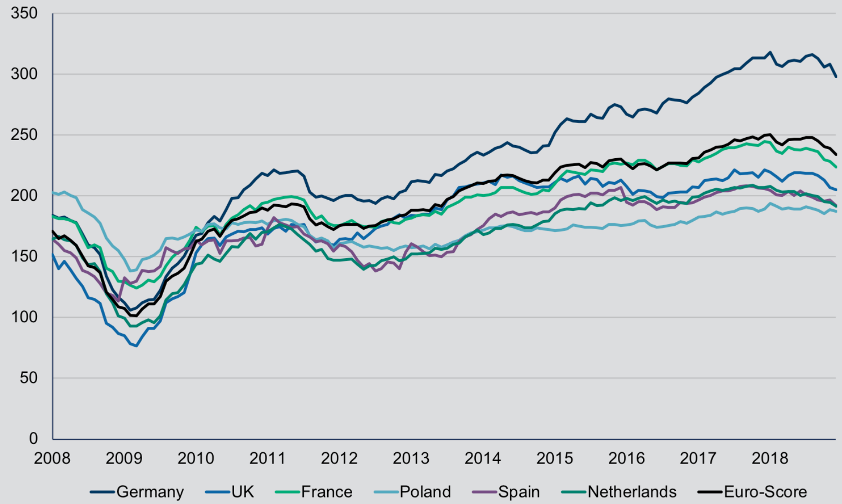
There is no clear driver of the current developments. Instead the majority of the countries included in the REECOX are displaying negative tendencies – although to significantly different degrees. The clearest negative movement was in the United Kingdom (-5.4 %) and France (-5.3 %), while the Polish Real Estate Economy Index more or less stagnated (-0.4 %). Over 2018 as a whole, Poland (-0.9 %) was also a positive outlier while all other countries saw significant negative development. The steepest fall was in France (-8.6 %), while the decrease in Germany was comparatively low (-4.7 %).

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 December 2018



REECOX IN FRANCE IN DECLINE

Following the recent stable development of the French Real Estate Economy Index, it decreased at the end of the year and stood at 223.7 points in the fourth quarter. That was its lowest level since summer 2016 and represents a drop of 5.3 % compared to the previous quarter. Overall, last year was characterised by predominantly negative development, with the REECOX falling by 8.6 % compared to the fourth quarter of 2017.

The current developments are due to the prevailing negative trends in all included market indices. The FTSE EPRA/NAREIT France real estate index made a significant contribution to the downward trend. Over the last three months of 2018 it fell continuously to 3,266.5 points, representing a decline of 15.5 % – a level not seen since January 2014. The French leading share index CAC 40 displayed a similar trend: It fell by 13.9 % compared to the previous quarter, to its current level of 4,730.7 points. The Economic Sentiment Indicator (ESI) also continued to develop negatively. The sentiment index fell by 3.3 % compared to the previous quarter, to its current level of 102.8 points.

COMMENT ON THE MARKET

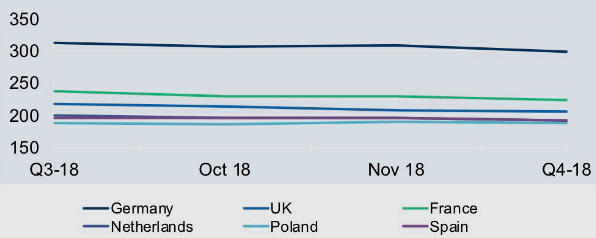
Anne-Isabelle Carbonnières, Managing Director Office Paris

“The negative development we have seen on the stock markets in the last quarter clearly shows that the economy is nervous. When viewed against the backdrop of the difficult current global political situation, that does not surprise me at all. The budget dispute between Italy and the EU, the upcoming Brexit, the trade war between the USA and China, and the continuing protests by the ‘gilets jaunes’ in France are all reasons to be nervous. However, that nervousness has not yet reached the real estate market. Transaction volume totalled € 32.5 billion in 2018 – a year-on-year increase of 19 %. In addition, investors and banks have learned from the financial crisis and, for example, have significantly lower leverage ratios than 10 years ago. That’s why nobody is expecting a real estate bubble. At the same time, the development of the real estate market is of course closely connected to the state of the economy as a whole. So it is more important than ever to watch the market closely and, above all, continue to focus on quality rather than quantity.”

“Nobody is expecting a real estate bubble.”

Key figures of the real estate economies

Country	Change of input variables in Q4-18					Change of the real estate economy Q3-18 / Q4-18	Values of the real estate economy				
	Leading share index	Real estate share index	Indicator of economic sentiment	Basic interest rate	Risk-free interest rate		Q3-18	Oct 18	Nov 18	Q4-18	**Delta (%) Q3-18 / Q4-18**
Germany	↓	↘	↘	→	↘		313	306	308	298	**-4,7**
UK	↓	↘	↘	→	↘		216	213	207	205	**-5,4**
France	↓	↓	↓	→	→		236	230	229	224	**-5,3**
Netherlands	↓	↓	↘	→	↘		199	195	195	191	**-4,0**
Poland	→	↘	→	→	↓		188	186	189	187	**-0,4**
Spain	↓	↘	↘	→	→		196	196	196	192	**-2,4**



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