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 %).

Kind regards,
Sabine Barthauer
POLISH REAL ESTATE ECONOMY INDEX STANDS OUT POSITIVELY

In the past the Polish Real Estate Economy Index displayed relatively low rates of growth. Its consistency over 2018 as a whole is nevertheless quite remarkable. While most of the other REECOX countries had clear negative trends, the Polish REECOX hardly fell compared to the same quarter in the previous year, with a decline of just 0.9 %. Its development in the fourth quarter, with a fall of just 0.4 % to 187.5 points, fits almost seamlessly into that picture.

The basis for the recent stable trend was the Polish leading share index WIG 20, which ended the year at 2,276.6 points, remaining almost constant with growth of just 0.4 %. The consistent development of the Polish business climate as measured by the Economic Sentiment Indicator (ESI) also made a significant contribution to the robust Polish Real Estate Economy Index. It even rose slightly compared to the third quarter, by 0.1 %, to 107.8 points. Those trends were not reflected by the Polish real estate index WIG Developers. The negative development observed since spring 2018 continued in the fourth quarter. At 1,911.7 points, the real estate index fell below the 2,000 point mark for the first time in a long period, representing a drop of 6.0 %.

COMMENT ON THE MARKET

“We have known for a long time that the current real estate cycle is exceptional. However, the most recent news is still quite remarkable: In 2018, the returns on premium office properties in Warsaw fell by a huge 2.5 percentage points. At the same time, the transaction volume on the Polish real estate market rose from € 5.2 billion to € 7.2 billion, with the number of transactions growing by just less than 50 %. That means the demand for premium properties remains very high. However, we are now seeing clear signs indicating that those positive developments will not continue seamlessly. On the one hand, the Deutsche Hypo REECOX reveals an economic slowdown in all the European countries surveyed – and in some cases that negative trend is significant. On the other hand, the price of plots is so high here that the number of projects realised is declining. Irrespective of those trends, real estate companies are also suffering from increasing labour costs. The industry will face more challenges in 2019 than in 2018.”

“There are signs that recent positive developments will not continue in 2019.”

Key figures of the real estate economies

<table>
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<tr>
<th>Country</th>
<th>Change of input variables in Q4-18</th>
<th>Change of the real estate economy Q3-18 / Q4-18</th>
<th>Values of the real estate economy</th>
<th>Delta (%)</th>
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