



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

DEUTSCHE HYPO EURO-SCORE

233.9

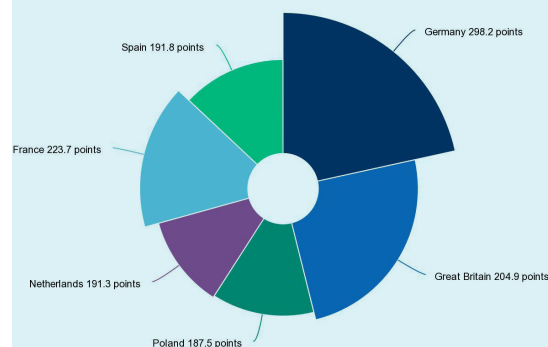
DEUTSCHE HYPO REECOX SEES DOWNTURN AT THE END OF THE YEAR

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 dif-

ference is that the REECOX stood at 172.2 points at the end of 2011 – compared to 233.9 points today.

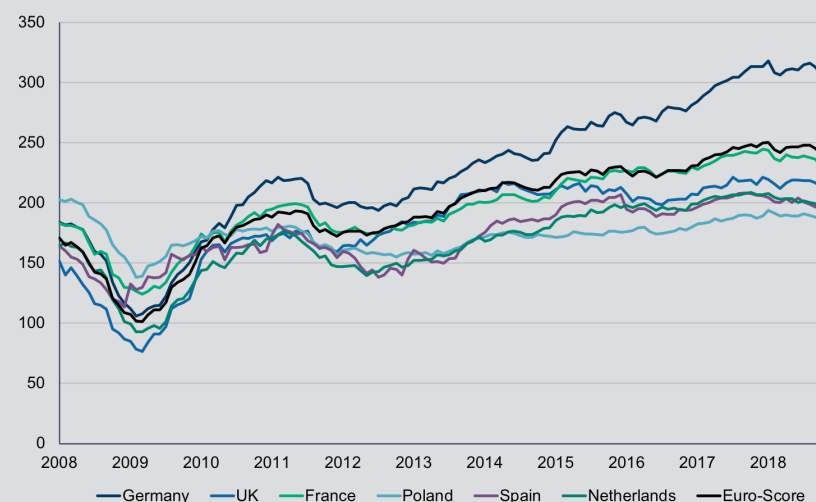
There is no clear driver of the current developments. Instead the majority of the countries included in the REECOX are displaying negative tendencies – although to significantly different degrees. The clearest negative movement was in the United Kingdom (-5.4 %) and France (-5.3 %), while the Polish 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 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 December 2018





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

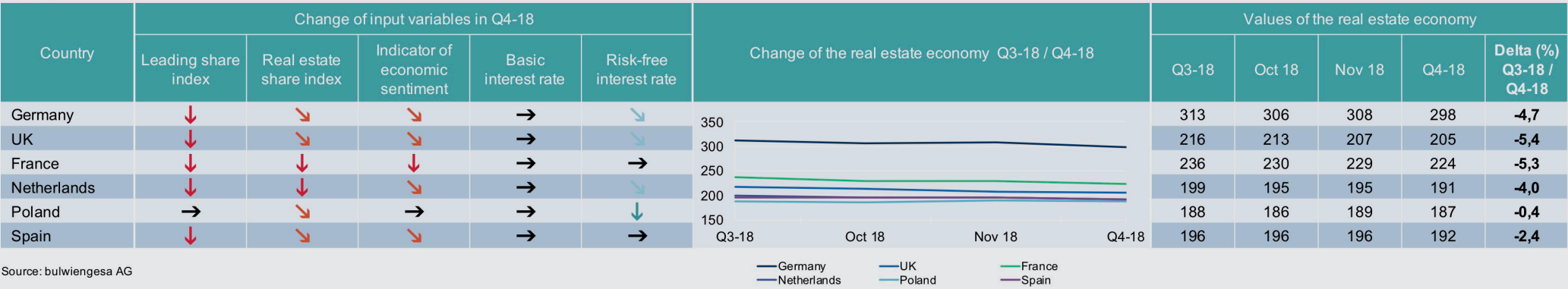


Beata Latoszek,
Managing Director
Office Warsaw

“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



PUBLICATION DETAILS

Responsible for content:
bulwiengesa AG, Tobias Kassner
tobias.kassner@bulwiengesa.de
Moorfuhrweg 13, 22301 Hamburg
Tel.: +49 30 278768-23

Responsible for publication:
Deutsche Hypothekenbank, Carsten Dickhut
Carsten.Dickhut@deutsche-hypo.de
Osterstraße 31, 30159 Hannover
Tel.: +49 511 3045-580

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