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

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DEUTSCHE HYPO REECOX SEES DOWNTURN AT THE END OF THE YEAR

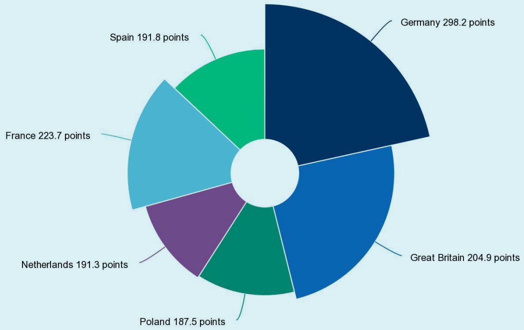
While recent quarterly reports have not displayed a clear trend, and the European Real Estate Economy Index (Euro Score) has fluctuated, the direction at the end of the year is unequivocal: the REECOX Euro Score currently lies at 233.9 points, its lowest level in two years. Seen retrospectively, this 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 %).

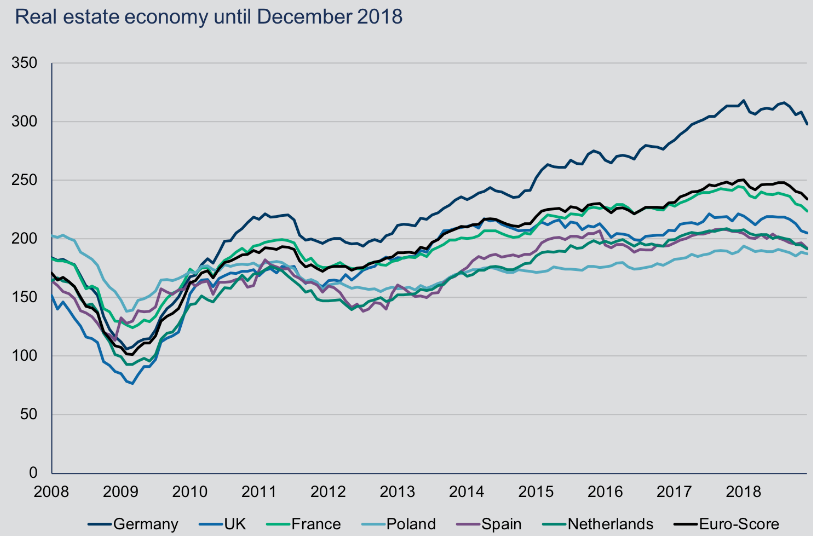
DEUTSCHE HYPO EURO-SCORE

233.9

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).



BREXIT UNCERTAINTY HAS NEGATIVE EFFECTS

The recent development of the British Real Estate Economy Index was comparatively good, despite the threat of Brexit: following a strong second quarter, there was only a slight downturn in the third quarter. However, the decline in the British REECOX at the end of the year was the largest of any country surveyed. Compared to the third quarter, the index fell by 5.4 % to 204.9 points at the end of December 2018.

The recent trend was significantly affected by the development of the British share indices, which recorded double-digit declines in the last quarter. For example, the British leading share index FTSE 100 showed a continuous downward trend for each month of the fourth quarter, with a total decline of 10.4 % to 6,728.1 points. Meanwhile the FTSE EPRA/NAREIT UK real estate index also slumped to almost the 1,000 point mark; it declined by 10.8 % compared to the third quarter to 1,072.8 points at the end of the year. And the recently improving outlook of the real estate experts surveyed for the Economic Sentiment Indicator (ESI) also declined by 2.6 % compared to the third quarter, to 105.6 points. That means that, overall, all market variables developed negatively in the last quarter – in some cases significantly. It remains to be seen what the effect of the ongoing Brexit negotiations will be.

COMMENT ON THE MARKET

Markus Nitsche,
General Manager of
London Branche

“Looking back at 2018 we can see that it was a year of sideward movement. That is true of both the real estate market and the Brexit. While that was positive for the real estate market, considering its continuing high level, it was far from positive with regard to the Brexit. Almost three years after the referendum and there is still no clarity regarding the United Kingdom’s exit from the EU – and the clock is ticking! Considered against that backdrop, it is remarkable how robust and fluid the real estate market is. And that is not only the case in London, regions such as Manchester and Leeds have also developed strongly. Interest in the British commercial real estate market among international investors is unwavering – so far the Brexit has not changed that.”

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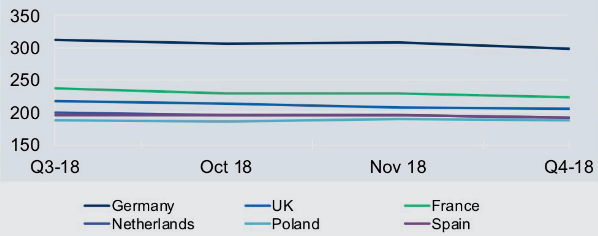
Key figures of the real estate economies

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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