



REECOX

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DEUTSCHE HYPO
REAL ESTATE ECONOMY INDEX

01-2019



Dear readers,

the Euro-Score had a good start to 2019. The positive trend was observed in all six countries covered by the index. This

type of almost parallel development has been seen before in the past, and clearly reflects the close relationships between the European countries. We are also aware of those close connections in our day-to-day business: many investors are active across borders and pursue pan-European strategies. The economy as a whole benefits from the advantages of a united Europe. But that has not stopped the voices of Europe's critics becoming louder – a worrying development. That's why it's more important than ever that we stand together for Europe – because it is the only way forward. We need the EU, for our economy and for lasting peace. That's why I hope that we will embody the idea of a united Europe even more strongly after the European elections, and that the countries will move even closer together!

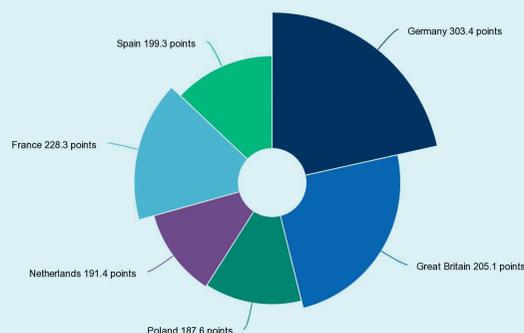
Kind regards,
Sabine Barthauer

EURO-SCORE STARTS THE YEAR POSITIVELY

The European Real Estate Economy Index performed negatively over 2018 as a whole, largely as a result of the clear negative trend in the fourth quarter. That makes the renewed positive development in the first quarter of 2019, which resulted in a slight recovery at the start of the year, even more welcome. Following negative development of the Euro-Score over four consecutive months, the trend was finally ended by a slight rise (+1.3%) in January. While that rise was almost completely cancelled out by a further fall in February (-1.1%), the positive trend continued in March (+1.3%). Overall, the first quarter was volatile but ended with an increase of 1.6% in the Euro-Score, leaving it at its current level of 236.8 points.

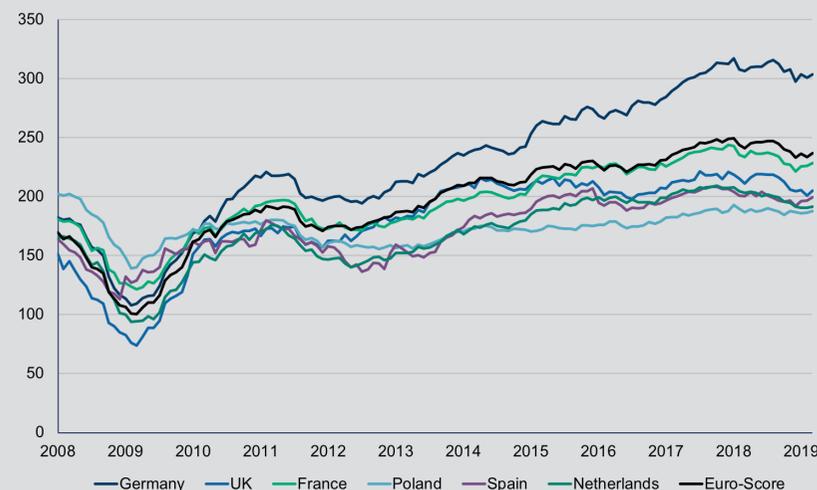
The positive pan-European trend was generally observed in all the countries included by the Deutsche Hypo REECOX. Developments in France and Spain were particularly positive. Following significant drops in the previous year, they each saw a rise in all three months of the first quarter. Those countries also displayed above-average performance over the first quarter as a whole. In France the Real Estate Economy Index rose by 3.2%, while Spain saw an increase of 3.8%. The other countries saw decreases in individual months of the first quarter but, with the exception of the UK, none of those setbacks exceeded one percentage point.

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 March 2019



DEUTSCHE HYPO EURO-SCORE

236.8



THE UK REAL ESTATE ECONOMY INDEX NOT ABLE TO RECOVER

Following the decline in the UK Real Estate Economy Index in 2018, there was no recovery in the first quarter of 2019 – but no further decline either. With an increase of just 0.3% to its current level of 205.1 points, there was little movement in the Real Estate Economy Index over the last three months.

Analysis of the input variables reveals diametrically opposing development in stock market and business climate indicators. The UK leading share index FTSE 100 developed positively in each month of the first quarter, rising by 8.2% to approximately 7,279 points. That represented a year-on-year increase, and made up for the losses seen in the previous year. There was an even greater recovery in the real estate index FTSE EPRA/NAREIT UK. The significant declines over the last two quarters were offset by an impressive increase of more than 20% to approximately 1,288 points. The assessments of the real estate experts surveyed for the Economic Sentiment Indicator (ESI) presented a very different picture. It declined by 4.4% to 100.8 points and in February fell below the 100 point mark for the first time since summer 2013.

COMMENT ON THE MARKET



Markus Nitsche,
General Manager of
London Branche

“Following declines in recent months, there was hardly any movement in the REECO this quarter – just like the BREXIT negotiations. Luckily, that was hardly noticeable in our day-to-day business. The macroeconomic factors are stable and the real estate market seems a little detached from the broader political climate – at least for the time being. We see a lot of activity on the market and significant interest from domestic and international investors. There is solid potential for growth, especially in the regions beyond London. But I consciously say “for the time being”. The current political situation makes it difficult to predict future developments. This type of situation requires a strong, sustainable portfolio, and focus on the fundamentals: good business with reliable partners.”

“The real estate market seems detached from the broader political climate.”

Key figures of the real estate economies

| Country | Change of input variables in Q1-19 | | | | | Change of the real estate economy Q4-18 / Q1-19 | Values of the real estate economy | | | | |
|-------------|------------------------------------|-------------------------|---------------------------------|---------------------|-------------------------|---|-----------------------------------|--------|--------|-------|-------------------------|
| | Leading share index | Real estate share index | Indicator of economic sentiment | Basic interest rate | Risk-free interest rate | | Q4-18 | Jan 19 | Feb 19 | Q1-19 | Delta (%) Q4-18 / Q1-19 |
| Germany | ↑ | ↗ | ↘ | → | ↘ | | 297 | 303 | 301 | 303 | 2,0 |
| UK | ↗ | ↑ | ↘ | → | ↘ | | 205 | 206 | 201 | 205 | 0,3 |
| France | ↑ | ↑ | → | → | ↘ | | 221 | 225 | 226 | 228 | 3,2 |
| Netherlands | ↑ | ↗ | ↘ | → | ↘ | | 191 | 190 | 191 | 191 | 0,0 |
| Poland | ↗ | ↑ | ↘ | → | ↘ | | 187 | 186 | 187 | 188 | 0,5 |
| Spain | ↗ | ↑ | ↗ | → | ↓ | | 192 | 196 | 197 | 199 | 3,8 |

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

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