



REECOX

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DEUTSCHE HYPO
REAL ESTATE ECONOMY INDEX

02-2019



Dear readers,

Europe is in agreement: Since early 2018, the development of the REECOX quarterly values in at least five of the six

markets observed has been aligned – and that trend continued in the second quarter of 2019: With the exception of France where, happily, the REECOX rose, the Real Estate Economy Indices in all the other markets fell. That development is, among other things, due to the deteriorating business climate in all the markets observed, with the exception of France. Escalating trade disputes and the weakening of the global economy are having an increasingly negative effect on sentiment in all markets. At any rate, companies consider their current situation and outlook to be significantly worse than in previous years. As a result of the dependence of the real estate sector on economic development, the impact of those trends on our industry is now also noticeable. We will see how sustainable the current development is as the year progresses.

Kind regards,
Sabine Barthauer

DEUTSCHE HYPO EURO-SCORE

232.7

EUROPEAN REAL ESTATE ECONOMY FACES HEADWIND

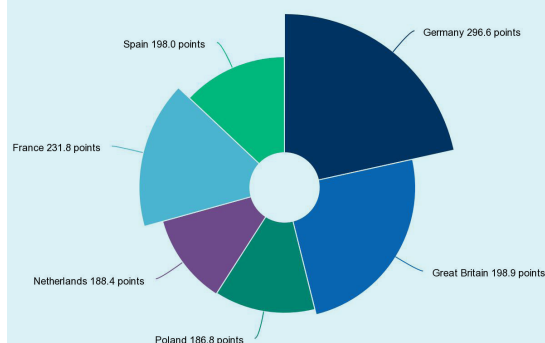
Deutsche Hypo REECOX's European Real Estate Economy Index (Euro Score) fell slightly in the second quarter. Following a short high in the first quarter, that continued the negative trend seen in 2018. While there were no significant changes in the months of April (-0.3 %) and June (-0.2 %), developments in May (-1.3 %) resulted in the negative trend for the quarter as a whole. The Euro Score therefore fell by 1.8 % overall, to its current level of 232.7 points.

With the exception of the French Real Estate Economy Index, the index values for all the countries observed by the Deutsche Hypo REECOX decreased in the second quarter. That meant REECOX France developed positively for the second consecutive quarter.

That clearly contrasted with the situation in the United Kingdom: The REECOX UK displayed the largest comparative loss, falling below the 200 point mark. A year-on-year comparison underlines its dramatic development: Compared to June 2018, the index fell by approximately 20 points to its lowest level since summer 2016. Noticeable, though less dramatic, declines were also seen in Germany (-2.2 %) and the Netherlands (-1.6 %).

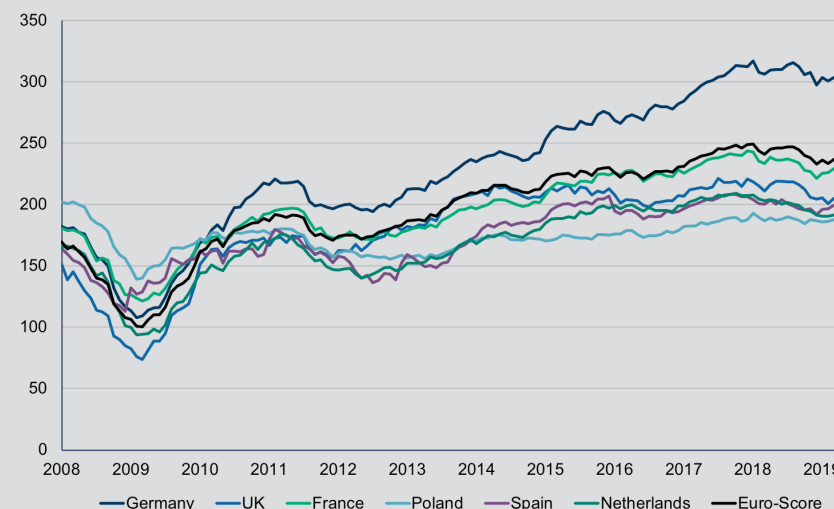
Meanwhile, the Real Estate Economy Indices in Poland (-0.4 %) and Spain (-0.6 %) were more or less stable. It should, however, be noted that REECOX Spain declined slightly but constantly, while developments in Poland were more volatile.

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 June 2019





SPANISH REAL ESTATE ECONOMY INDEX STABLE

The Spanish Real Estate Economy Index had a strong start to 2019. The first quarter was characterised by clear positive development (+3.8 %) and the index almost reached the 200 point mark. It ended the second quarter at a similar level, falling slightly (-0.6 %) to 198 points. However, considering the significant decreases in the second half of 2018, and compared to the other real estate markets observed by the REECOX, the overall development of the Spanish Real Estate Economy Index can be described as stable.

As in the first quarter, the development of the REECOX was primarily driven by the dynamism of Spanish real estate shares as measured by the real estate index ES BCN 5 Property. It rose by 3.3 %, consolidating its position above the 1,000 point mark, which it fell below temporarily in 2018. Meanwhile, the leading share index IBEX 35 was relatively stable. Compared to the previous quarter, it only decreased slightly, by -0.4 %, to its current level of 9,199 points. After its steep rise in 2017, followed by a slump to significantly below 9,000 points, the Spanish stock market displayed a certain level of consistency again.

The business climate as measured by the Economic Sentiment Indicator (ESI) was apparently unaffected by stock market developments, falling by 1.8 % compared to the previous quarter to its current level of 104.8 points, which is nonetheless higher than its temporary low in December 2018.

COMMENT ON THE MARKET



Maite Linares,
Managing Director
Office Madrid

“Although REECOX Spain did not rise above the 200 point mark in the second quarter of the year, sentiment in the real estate sector remains positive. The Spanish economy is robust, there is considerable liquidity on the market and, above all, current interest rate policy is making real estate an extremely attractive asset class for investors. But there continues to be a shortage of supply. Above all in the retail and logistics segments there are simply no good properties available. That contrasted with the office market, which was even more dynamic in the first half of the year. There was both new construction and widespread renovation: Green buildings are increasingly in demand in Spain, which is why many properties are being modernised to meet sustainability standards. The topic of sustainability is not just a trend. Instead we are seeing a long-term transformation.”

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Key figures of the real estate economies

Country	Change of input variables in Q2-19					Change of the real estate economy Q1-19 / Q2-19	Values of the real estate economy				
	Leading share index	Real estate share index	Indicator of economic sentiment	Basic interest rate	Risk-free interest rate		Q1-19	Apr 19	May 19	Q2-19	Delta (%) Q1-19 / Q2-19
Germany	↗	↘	↘	→	↓	350	303	302	303	297	-2,2
UK	↗	↘	↘	→	↓	300	205	204	196	199	-3,0
France	↗	↘	↗	→	↓	250	229	230	230	232	1,2
Netherlands	↗	↘	↘	→	↓	200	191	193	188	188	-1,6
Poland	→	↗	↘	→	↓	150	188	185	184	187	-0,4
Spain	→	↗	↘	→	↓	150	199	199	198	198	-0,6

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