



REECOX

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DEUTSCHE HYPO
REAL ESTATE ECONOMY INDEX

04-2019



Dear readers,

following the decline in the Euro Score in the second and third quarters, the question arose, "Have we passed the peak?"

The fourth quarter, however, showed us that we most certainly had not, with all countries posting stable or positive development. While the gains may no longer be as impressive as they were in previous years, we still find ourselves at a very high level. At the same time, we need to be aware that we are in a cyclical market and that the tense situation on the global stage harbours uncertainties. Despite the increasing emergence of specific facts regarding the Brexit decision process, the actual impact will not start to become visible until next year. Moreover, the existing geopolitical risks – especially the conflict between Iran and the US – are fuelling a degree of uncertainty in the market. It remains to be seen how these aspects will affect the Euro Score.

Kind regards,
Sabine Barthauer

DEUTSCHE HYPO EURO-SCORE

235.2

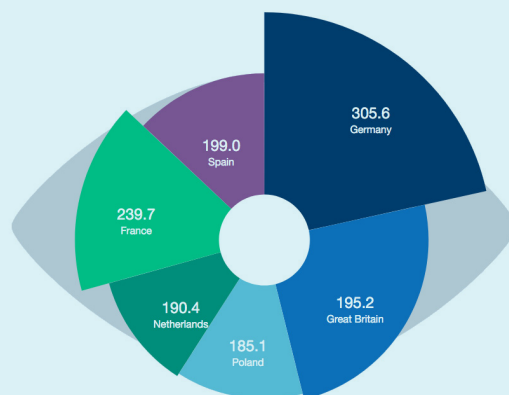
EURO SCORE ENDS 2019 ON A POSITIVE NOTE

A look back at 2019 shows that the European real estate sector saw slight recovery, posting an increase of 0.9 %. Despite a significant decline in 2018, the Euro Score started the year by recovering somewhat in the first quarter of 2019. Towards the middle of the year, the negative developments in the UK's real estate sector as a result of Brexit played a major role in shaping developments at the European level. The clarity achieved in the Brexit process in the fourth quarter has had a positive impact on the REECOX UK and appears to be fuelling a general improvement in sentiment. By the end of the year, the Euro Score had gained 2.7 % compared to the third quarter to stand at 235.2 points.

A look at the individual indicators illustrates that the REECOX index saw positive or at least stable development in all monitored countries in the

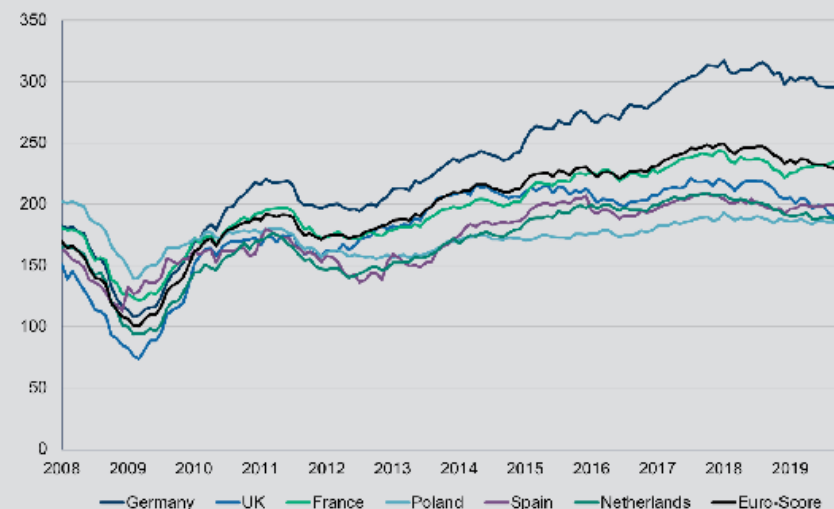
fourth quarter. As in other recent quarters, Poland (+0.1 % to 185.1 points) and Spain (±0 % to 199 points) remained virtually unchanged – something that can be seen as positive given the political uncertainty on the global stage. The real estate sector in the Netherlands, which gained 1.0 % to stand at 190.4 points, recorded slightly positive momentum. By contrast, substantial growth was recorded in Germany (+3.4 % to 305.6 points), the United Kingdom (+3.0 % to 195.2 points) and France (+2.3 % to 239.7 points). All told, France's REECOX saw the most positive development by far, having consistently posted gains every quarter. In France, the index was up 8.4 % year on year.

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 December 2019





SPANISH REAL ESTATE SECTOR STABLE

The REECOX Spain recorded overall positive development in 2019 and improved from 192.0 points in December 2018 to 199.0 points at the end of 2019. The fourth quarter of 2019 saw a sideways move. Despite a substantial decline in October, the REECOX managed to make up for the losses in December with a 3.6 % year on year increase that was above average compared to the rest of Europe.

However, the performance of the input variables behind the Spanish REECOX was mixed in the fourth quarter of 2019. The IBEX 35, Spain's leading stock market index, saw consistently positive development from August 2019 onward. By the end of the year, the index had risen to just under the most recent high recorded in April 2019 to stand at 9,549.2, equating to a quarter on quarter increase of 3.3 %. The ES BCN 5 Property real estate index also posted a slight gain of 0.3 %, bringing it up to 1,189.6 points. Nevertheless, only October was characterised by positive performance – one that was almost completely wiped out by a negative trend in the subsequent months. By contrast, the Spanish business climate, as measured by the Economic Sentiment Indicator (ESI), finished the third quarter with a significant decline to 104.2 points. The drop continued initially at the start of the fourth quarter, with sentiment losing another 2.9 % to stand at 101.2 points in October. Sentiment improved somewhat towards the end of the year, and the indicator now stands at 103.2 points. All told, sentiment was still roughly 1.0 % lower quarter on quarter and was at its lowest level in 2019.

COMMENT ON THE MARKET



Maite Linares,
Managing Director
Office Madrid

"2019 was a good year for us. Despite the international uncertainty, the investment volume of € 12 billion was on par with the previous year. The office and hotel segments in particular managed to make up for the tremendous decline of two-thirds to roughly € 1.2 billion in the retail sector, which was primarily attributable to a lack of investments in shopping centres. The hotel sector is booming, thanks in no small part to a sharp rise in tourist numbers. Last year alone, the country registered 83 million visitors. Meanwhile, all asset classes are seeing a far-reaching transformation, with a greater focus being placed on service and customers across real estate categories. Properties are changing, and innovative usage concepts are in demand. It will be interesting to see where the journey takes us, especially seeing as how there is currently a lot of liquidity in the market..."

"A greater focus is being placed on service and customers across real estate categories."

Key figures of the real estate economies

Country	Change of input variables in Q4-19					Change of the real estate economy Q3-19 / Q4-19	Values of the real estate economy				
	Leading share index	Real estate share index	Indicator of economic sentiment	Basic interest rate	Risk-free interest rate		Q3-19	Oct 19	Nov 19	Q4-19	Delta (%) Q3-19 / Q4-19
Germany	↗	↗	→	→	↑	350	296	298	302	306	3,4
UK	↗	↑	→	→	↗	300	190	192	194	195	3,0
France	↗	↗	→	→	↑	250	234	237	238	240	2,3
Netherlands	↗	↗	↘	→	↑	200	188	189	190	190	1,0
Poland	↘	↗	↘	→	→	150	185	184	185	185	0,1
Spain	↗	→	→	→	↗	150	199	196	197	199	0,0

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Netherlands Poland Spain

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