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

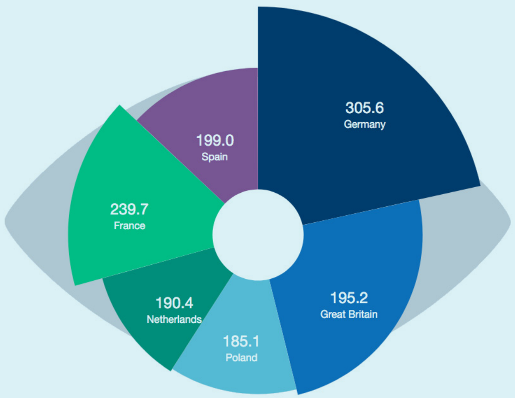
235.2

EURO SCORE ENDS 2019 ON A POSITIVE NOTE

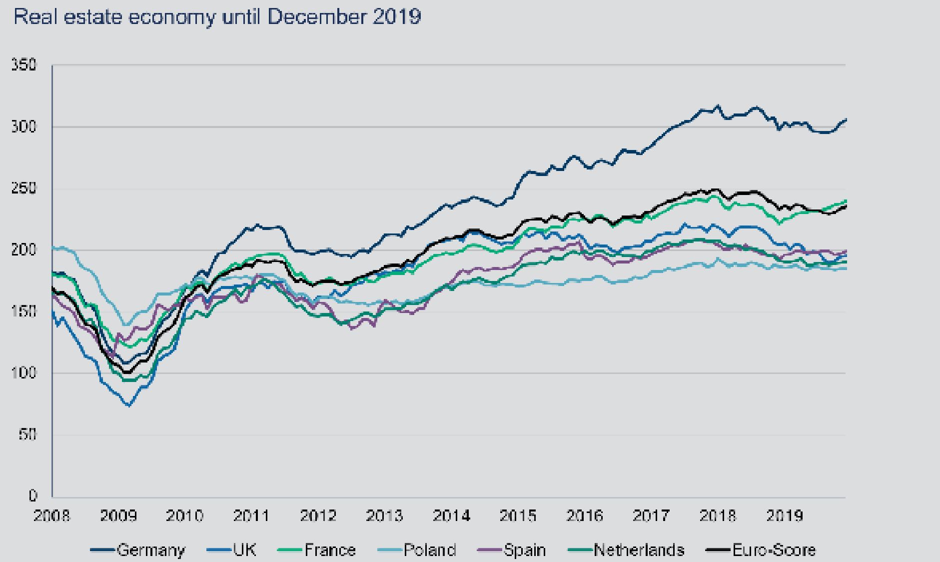
A look back at 2019 shows that the European real estate sector saw slight recovery, posting an increase of 0.9 %. Despite a significant decline in 2018, the Euro Score started the year by recovering somewhat in the first quarter of 2019. Towards the middle of the year, the negative developments in the 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).



REECOX UK RECOVERS IN FOURTH QUARTER

Now that the uncertainty has largely dissipated from the Brexit process, the prevailing sense of relief at the clarity of the situation is also reflected in the REECOX. Following a historic low in September, the index rose steadily in all three months of the fourth quarter to stand at 195.2 points, equating to a quarter on quarter increase of 3.0 %. Seen over the course of the entire year, however, the development from 204.5 points in December 2018 to 195.2 points in December 2019 – a change of approximately 4.5 % – was negative.

The FTSE EPRA/NAREIT UK real estate index, which has seen an upward trend since August, made the most substantial contribution to development in the fourth quarter. All told, the index gained 16.6 % to stand at 1,426 points – its highest level since May 2016. The general stock market also developed favourably, albeit with less amplitude. Britain's leading stock market index, the FTSE 100, rose by 1.8 % quarter on quarter to finish the year at 7,542 points. By contrast, the business climate – as measured by the Economic Sentiment Indicator (ESI) – has yet to recover, and the expectations for the country's economic future remain cautious. The index saw largely stable development (-0.1 %) and nevertheless stood at 87.9 points, last having fallen below that level in December 2011.

COMMENT ON THE MARKET

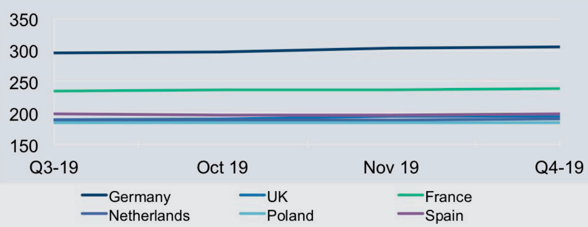
Markus Nitsche,
General Manager of
London Branch

"The early parliamentary elections and the resulting outcome allowed observers to breathe a slight sigh of relief in December after months of doubt that had riddled the United Kingdom. However, uncertainty continues as to the United Kingdom's future trade relations with the EU, and a hard Brexit is still possible, even though the market feels that this route is rather unlikely. For the time being, the situation has quieted down somewhat – much to the delight of the real estate market. As a result, the transaction volume on London's housing market, for example, has picked up again. With market players taking less of a wait-and-see approach than just a few months ago, there is reason for us to take a cautiously optimistic view of the year ahead in 2020."

"However, uncertainty continues as to the United Kingdom's future trade relations with the EU."

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	↗	↗	→	→	↑		296	298	302	306	**3,4**
UK	↗	↑	→	→	↗		190	192	194	195	**3,0**
France	↗	↗	→	→	↑		234	237	238	240	**2,3**
Netherlands	↗	↗	↘	→	↑		188	189	190	190	**1,0**
Poland	↘	↗	↘	→	→		185	184	185	185	**0,1**
Spain	↗	→	→	→	↗		199	196	197	199	**0,0**



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