REECOX
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DEUTSCHE HYPO
REAL ESTATE ECONOMY INDEX
01-2020

Dear readers,

following a positive start to 2020, with initial growth in the Euro Score as well, the coronavirus pandemic and the associated restrictions have had a significant impact on all our lives. However, the magnitude differs substantially from country to country. These differences are also reflected in the development of the individual real estate share indices. While Germany has seen a significant 16.8 % decline, the Netherlands have been forced to deal with a massive 64.0 % slump. Differences are also apparent when it comes to the continuation of construction projects. Work continues on construction sites in Germany and the Netherlands, whereas other countries, such as France and the UK, have shut down the entire construction sector. As a result, a partially divergent trend in Europe's real estate market has emerged for the first time in many years. The progress in fighting the pandemic and the measures taken to stop its spread differ from country to country, and so will the recovery of the individual markets. The hope is that we are able to return to normality as quickly as possible following this difficult time.

Kind regards,
Sabine Barthauer

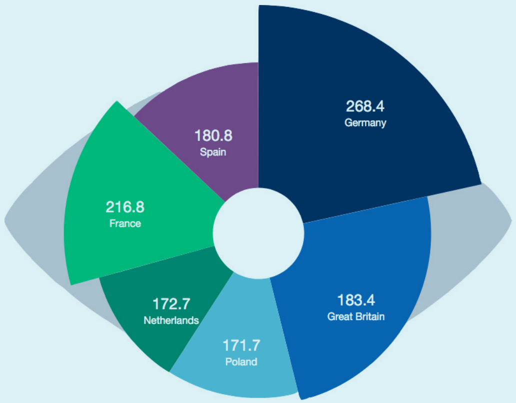
DEUTSCHE HYPO EURO-SCORE
213.3

CORONAVIRUS CAUSES SIGNIFICANT DECLINE IN THE EURO SCORE

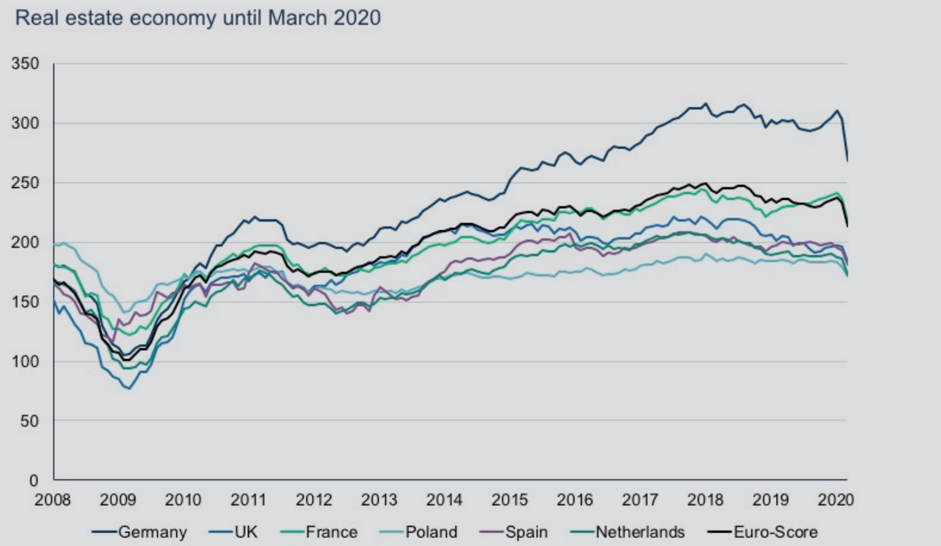
With 2019 having just ended on a cautiously optimistic note, the trend at the start of the new year remained slightly positive in January, resulting in a rise of 0.9 %. However, the first signs of a downtrend emerged in February, accompanied by a perceptible decline of 1.7 %. By March, at the latest, the coronavirus effect was making itself felt in the Euro Score as well, leading to a loss of 8.6 %. Compared to the previous quarter, the Euro Score fell by 9.4 % in total to 213.3 points, its lowest level since December 2014. A similarly dynamic development was last seen during the financial crisis in 2008.

The REECOX fell sharply in all monitored countries in anticipation of a global recession due to the economic restrictions related to the COVID-19 crisis. However, the differences in the severity of the decline as compared to the previous quarter were only minor. The market signal was identical everywhere. So far, the development has been comparatively moderate in Poland (-6.7 % to 171.7 points) and the UK (-6.8 % to 183.4 points). The Netherlands (-9.0 % to 172.7 points), France (-9.4% to 216.8 points) and Spain (-9.4% to 180.8 points) rounded out the middle. Meanwhile, the most significant decline materialised in Germany, where the REECOX recorded a double-digit fall of 11.8 %. Only twice before in the history of the REECOX – after the attack on the World Trade Center in September 2001 and during the financial crisis in October 2008 – have we seen a similar development in Germany, which is usually a safe haven. At 268.4 points, the index has once again fallen well below the 300-point mark.

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 GERMANY SEES A DOUBLE-DIGIT FALL

The first quarter of 2020 got off to a positive start for the German real estate sector. In January, the REECOX Germany gained 2.1 %. However, this positive development was negated in February with a decline of 2.5 %. In March, the COVID-19 crisis finally had an impact on the REECOX as well, leading to a further drop of 11.4 %. Altogether, the REECOX Germany lost 11.8 % quarter on quarter, falling to 268.4 points. The last time the index saw a double-digit drop was after the attack on the World Trade Center in September 2001 and during the financial crisis in October 2008.

The sharp decline in the DAX had a significant influence on the REECOX. After a historic peak at over 13,000 points in autumn 2019, the DAX lost 25 % quarter on quarter to fall below the 10,000-point mark and stand at 9,935 points by the end of March – its lowest level since summer 2016. Germany's DIMAX real estate share index also saw similarly negative development and finished the first quarter of 2020 16.8 % lower at 755.2 points, falling back below the 800-point mark for the first time since December 2018. Business sentiment as measured by the European Sentiment Indicator (ESI) was also down significantly at the end of the first quarter after breaking through the 100-point mark for the first time in a long time in the first two months of 2020. Compared to the previous quarter, the ESI lost roughly 7.2 % to stand at 92 points – apart from the UK, the lowest sentiment in the countries monitored by REECOX.

COMMENT ON THE MARKET

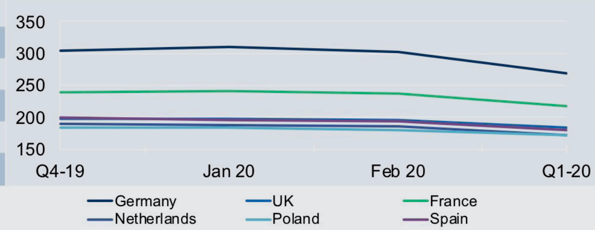
Ingo Albert,
Head of Frankfurt Office

"The impact of the coronavirus pandemic and the measures to prevent and reduce its spread left their mark on economic development in the first quarter of 2020. Like all others, companies in the real estate sector had to adapt to the changed conditions. However, the industry now appears to have largely adjusted to the situation. Many of the investors are still active in the market, even though the planning of new projects – through increased safety buffers – takes unforeseen events into greater consideration than might otherwise be the case. The hotel and retail sectors have been particularly hard hit. By contrast, office properties and the housing market are largely stable at the present time. Meanwhile, the logistics properties asset class could even stand to benefit from the crisis due to the marked rise in online retail sales and a changed need for warehouse space. The fact of the matter is that we are facing difficult economic times and that it is still too early for a reliable outlook in light of the impossible-to-estimate duration of the crisis."

"Anticipated slump in the first quarter of 2020."

Key figures of the real estate economies

Country	Change of input variables in Q1-20					Change of the real estate economy Q4-19 / Q1-20	Values of the real estate economy				
	Leading share index	Real estate share index	Indicator of economic sentiment	Basic interest rate	Risk-free interest rate		Q4-19	Jan 20	Feb 20	Q1-20	Delta (%) Q4-19 / Q1-20
Germany	↓	↓	↓	→	↘		304	311	303	268	-11,8
UK	↓	↓	↑	↓	↓		197	198	196	183	-6,8
France	↓	↓	→	→	→		239	241	236	217	-9,4
Netherlands	↓	↓	↘	→	↘		190	187	186	173	-9,0
Poland	↓	↓	↓	↓	↘		184	183	179	172	-6,7
Spain	↓	↓	↓	→	→		200	195	193	181	-9,4



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