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

CORONAVIRUS CAUSES SIGNIFICANT DECLINE IN THE EURO SCORE

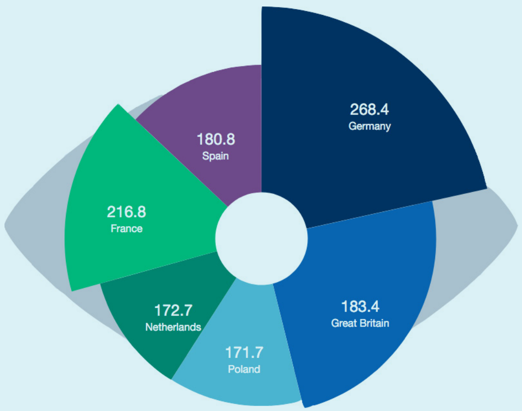
With 2019 having just ended on a cautiously optimistic note, the trend at the start of the new year remained slightly positive in January, resulting in a rise of 0.9 %. However, the first signs of a downtrend emerged in February, accompanied by a perceptible decline of 1.7 %. By March, at the latest, 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 EURO-SCORE

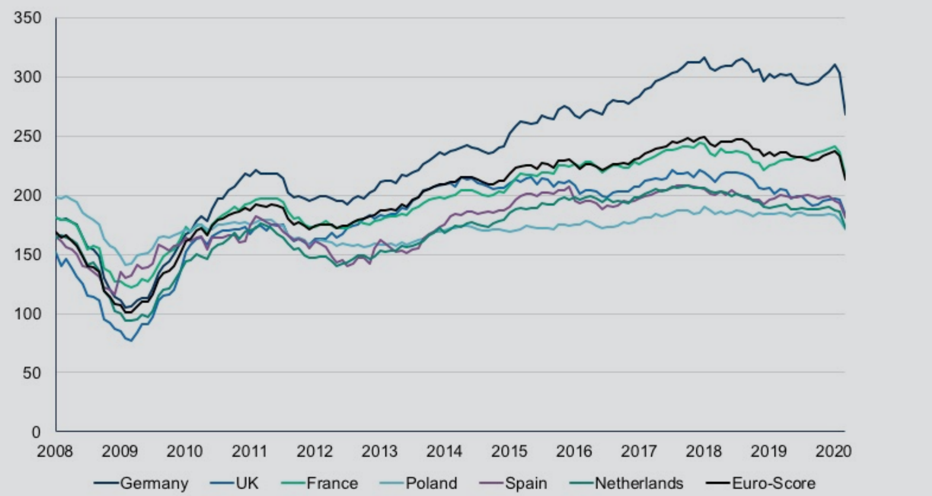
213.3

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 2020



SPANISH REAL ESTATE SECTOR ALREADY IN DECLINE BEFORE COVID-19

In contrast to most of the other European markets monitored, the REECOX Spain already began its downtrend in January (-2.4 % month on month). On account of the coronavirus pandemic, the decline picked up steam in March in particular, bringing the REECOX down to 180.8 points at the end of the first quarter of 2020 – a quarter-on-quarter decrease of 9.4 %. As a result, Spain's performance was just about average compared to the other European markets under observation.

The leading share index IBEX 35, which saw gains in the second half of 2019, was affected by the coronavirus pandemic to roughly the same extent as the other leading indices in the European markets monitored. Between the end of 2019 and the end of March 2020, the leading index lost more than 2,750 points to stand at 6,785 points – a loss of 28.9 %. The ES BCN 5 Property real estate index was even harder hit, falling 46.5 % to 637 points to stand at its lowest level since September 2012. By comparison, the Spanish business climate, as measured by the Economic Sentiment Indicator (ESI), was stable, losing a mere 3.3 % quarter on quarter. At 99.3 points, however, it fell below the 100-point mark for the first time in nearly six years.

COMMENT ON THE MARKET

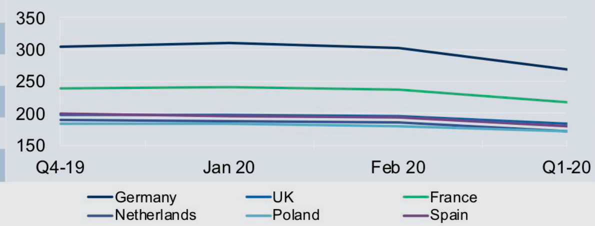
Maite Linares,
Managing Director
Office Madrid

"Spain has been hard hit by the coronavirus pandemic, and the impact on the economy will be noticeable. Although activity is slowly starting back up in some sectors, it is already clear that certain real estate asset classes will not be spared from the effects of the pandemic. However, there are significant differences among the individual classes. Whereas the hotel and retail segments have been most negatively impacted, the logistics sector has benefited the most from the situation thanks to a sharp rise in online purchases and the associated need for warehouse space. Opinions vary considerably when it comes to office properties, with some saying that demand for this asset class will continue, and others expecting the concept of working from home to pick up further steam as a result of the pandemic, thereby significantly affecting the need for office space. The fact of the matter is that the various asset classes are set to undergo a transformation – in some cases in a different direction than before the pandemic."

"The fact of the matter is: asset classes are set to undergo a transformation."

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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