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

Sabine Barthauer

DEUTSCHE HYPO EURO-SCORE

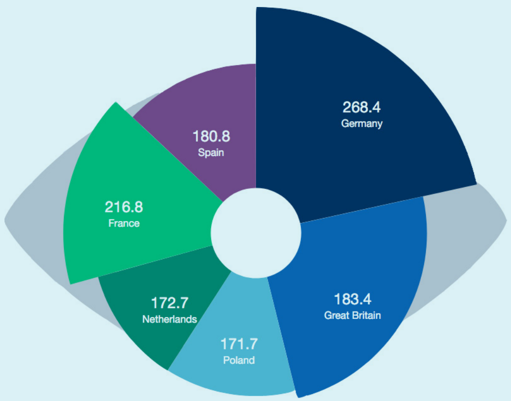
213.3

EURO SCORE ENDS 2019 ON A POSITIVE NOTE

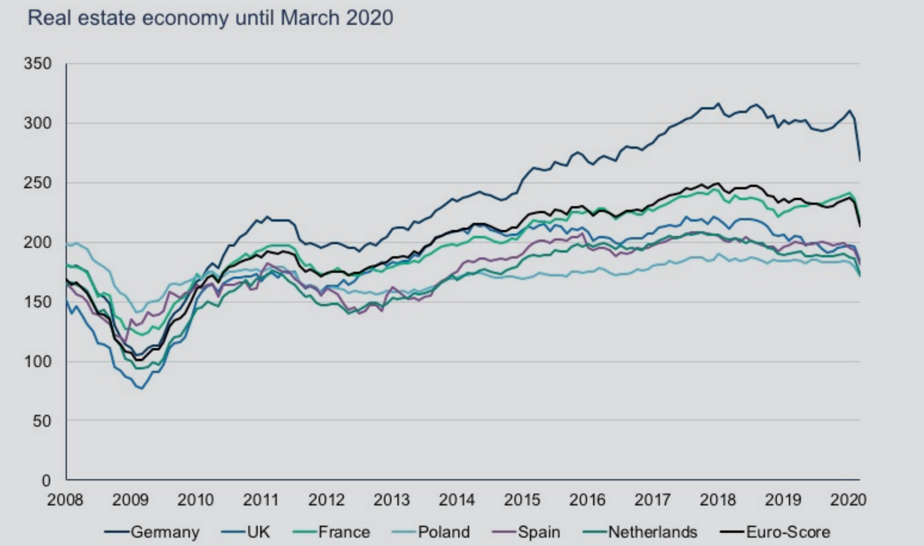
With 2019 having just ended on a cautiously optimistic note, the trend at the start of the new year remained slightly positive in January, resulting in a rise of 0.9 %. However, the first signs of a downtrend emerged in February, accompanied by a perceptible decline of 1.7 %. By March, at the latest,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



COVID-19 ENDS THE PREVIOUS YEAR'S STABILITY

After a very stable 2019 on the whole, in which the REECOX Netherlands saw only minor volatility, the coronavirus had a significant impact. However, a decline of 9.0 % quarter on quarter to 172.7 points means it fared slightly better than the average of the other European markets being monitored. As in the other markets, the slump did not fully materialise until March, after the rather stable months of January and February.

With a decline of 20.0 % to roughly 483 points between the end of 2019 and the end of March, the coronavirus's effect on the leading AEX 25 stock market index was still modest compared with the other European benchmark indices monitored. The effect on the FTSE EPRA/NAREIT Netherlands real estate share index was significantly more dramatic. On the heels of a strong year-end rally in 2019, the index plummeted due to the pandemic, losing some 64.0 %. By the end of March, it only stood at approximately 313 points. At the start of 2020, it appeared as if the business climate, as measured by the European Sentiment Indicator (ESI), was poised to improve. But March put an end to those hopes. The level of 98.2 points means not only a 2.3 % decline quarter on quarter, but also a first trip back into negative territory since early 2014.

COMMENT ON THE MARKET

Wouter de Bever,
Managing Director
Office Amsterdam

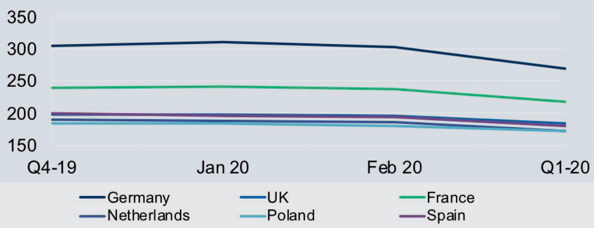
"In the first quarter of 2020, the REECOX for the Netherlands indicated a weak performance as expected in light of the impact of the coronavirus pandemic. The retail and hotel sectors have been particularly hard hit by the closures. While we may be in a phase of economic uncertainty, the sharp decline of over 60 % in real estate shares compared to the end of 2019, as measured by the FTSE EPRA/NAREIT Netherlands, seems to be a significant overreaction. The solid liquidity of many real estate investors has not changed, at any rate. Still, many investors are currently exercising restraint in order to wait for what they believe is an opportune moment. No such moment is currently in sight – at least not in the housing market. The Dutch state has rolled out a comprehensive aid package to counteract the negative effects of the coronavirus pandemic. What is important is that we quickly overcome the situation and return to business as usual. The economy cannot afford an extended crisis."

"Uncertainty and restraint."

Key figures of the real estate economies

Country	Change of input variables in 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

Change of the real estate economy Q4-19 / Q1-20



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Responsible for content:
bulwiengesa AG, Felix Schrader
felix.schrader@bulwiengesa.de
Moorfuhrtweg 13, 22301 Hamburg
Tel.: +49 40 42 32 22-27

Responsible for publication:
Deutsche Hypothekenbank, Axel Seidenschwarz
axel.seidenschwarz@deutsche-hypo.de
Osterstraße 31, 30159 Hannover
Tel.: +49 511 3045-580

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