REECOX

www.reecox.co.uk

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

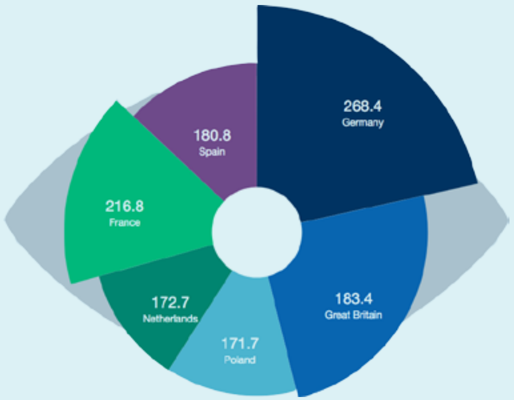
213.3

CORONAVIRUS CAUSES SIGNIFICANT DECLINE IN THE EURO SCORE

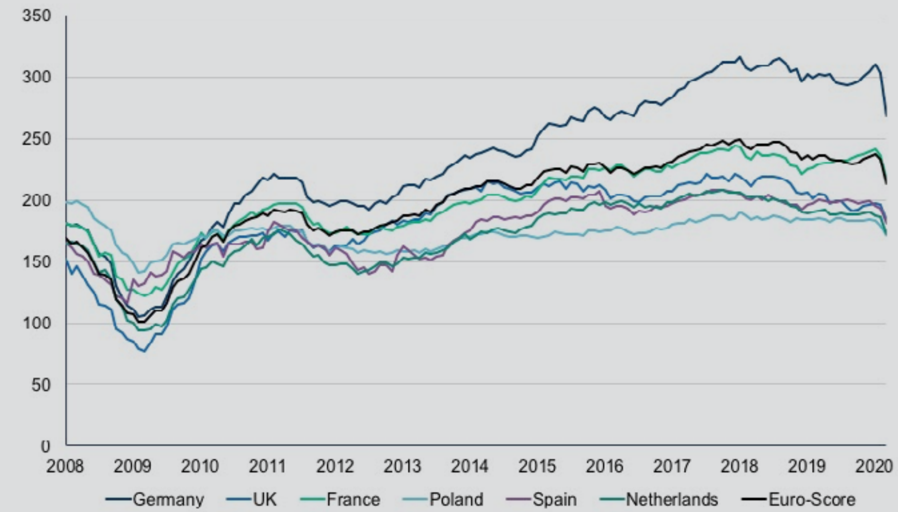
With 2019 having just ended on a cautiously optimistic note, the trend at the start of the new year remained slightly positive in January, resulting in a rise of 0.9 %. However, the first signs of a downtrend emerged in February, accompanied by a perceptible decline of 1.7 %. By March, at the latest,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



POLISH REAL ESTATE SECTOR SEES COMPARATIVELY MINOR IMPACT

Compared to the other markets monitored by REECOX, the impact of the COVID-19 pandemic has so far been less pronounced in Poland. The decline of 6.7 % quarter on quarter means the least steep drop of all markets under observation. At -6.8 %, a decrease of a similar magnitude was seen only in the United Kingdom. Be that as it may, the reading of 171.7 points at the end of the quarter was the lowest value since September 2015.

The impact of the pandemic in Poland is more strongly reflected in the leading stock market index than in real estate shares. With a 23.3 % decline to 1,887 points, the WIG Developers real estate index was still relatively stable compared with many other European real estate indices. The main reason for this steadiness was the positive start to the year, the index having gained 3.6 % month on month in January. The WIG 20, Poland's leading stock market index, was already substantially lower at the end of 2019. The losses continued in January (-3.9 % month on month) and picked up speed significantly in February (-14.4 %) and March (-14.5 %) as a result of the pandemic. At 1,512 points, the index fell to its lowest level since March 2009. Moreover, the downward spiral in business sentiment as reported by the Economic Sentiment Indicator (ESI) continued in the wake of the pandemic, resulting in a 7.0 % quarter-on-quarter decrease to 95.3 points.

COMMENT ON THE MARKET

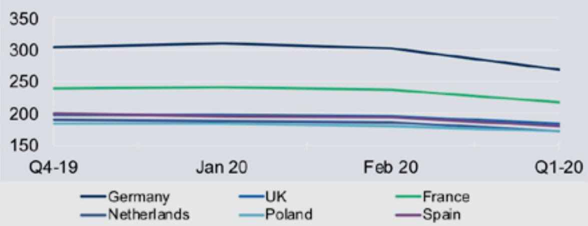
Beata Latoszek,
Managing Director
Office Warsaw

"The real estate sector in Poland got off to a strong start in 2020. With an investment volume of € 1.7 billion, the results for the first quarter of 2020 were positive. In March, however, the uncertainty regarding the economic impact of the coronavirus pandemic increased significantly. Development was remarkably varied in the individual sub-markets. Hotel and retail real estate in particular are in crisis mode. The situation is different when it comes to office real estate. While investors continue to be very keenly interested in this asset class, they are looking to anticipate appropriate coronavirus discounts in the purchase price during transactions. Returns of up to 6 % are possible in prime locations, provided the situation does not scare potential sellers off. By contrast, logistics real estate is currently among the clear winners. Everything else depends on the duration of the COVID-19 crisis. The duration determines the magnitude. It is pretty much impossible to come up with a reliable forecast in this environment."

"A downtrend, as expected – except for logistics."

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



Source: bulwiengesa AG

PUBLICATION DETAILS

Responsible for content:
bulwiengesa AG, Felix Schrader
felix.schrader@bulwiengesa.de
Moorfuhrtweg 13, 22301 Hamburg
Tel.: +49 30 278768-27

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

DEUTSCHE HYPO
Member of NORD/LB