



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

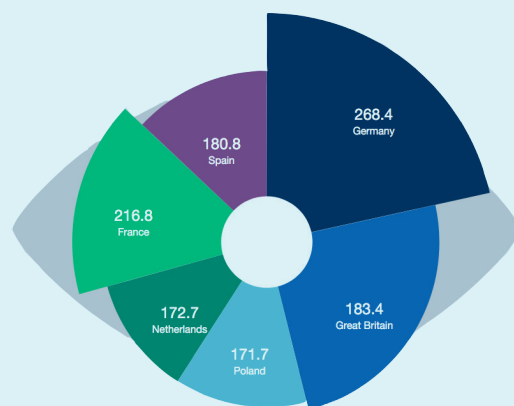
CORONAVIRUS CAUSES SIGNIFICANT DECLINE IN THE EURO SCORE

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

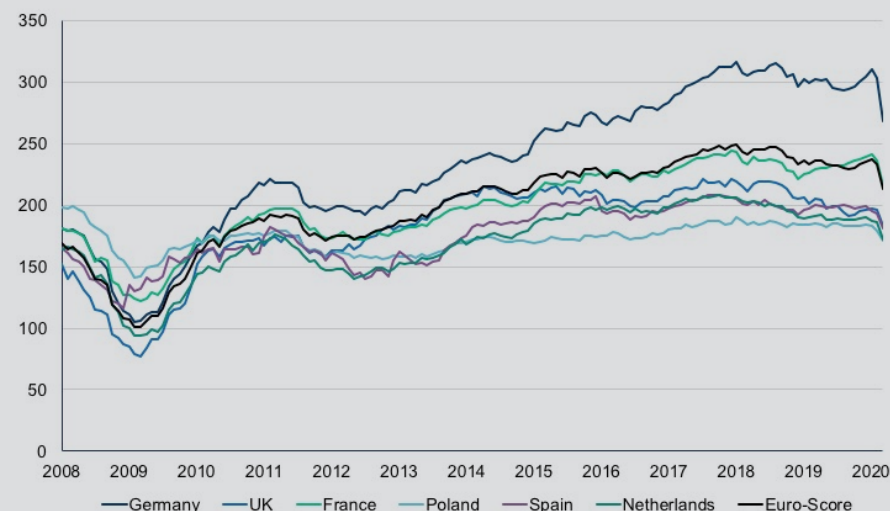
as compared to the previous quarter were only minor. The market signal was identical everywhere. So far, the development has been comparatively moderate in Poland (-6.7 % to 171.7 points) and the UK (-6.8 % to 183.4 points). The Netherlands (-9.0 % to 172.7 points), France (-9.4% to 216.8 points) and 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).

Real estate economy until March 2020



DEUTSCHE HYPO EURO-SCORE

213.3



REECOX UK DOWN 6.8 %

The cautiously optimistic trend seen in the previous quarter continued at the start of the year. In January, the REECOX UK gained 0.5 %. This positive trend ultimately came to an end in February when the index fell by 0.8 %. The coronavirus effect led to a decline of roughly 6.5 % in March. All in all, the REECOX UK lost some 6.8 % compared to the fourth quarter of 2019 to stand at 183.4 points – its lowest level since February 2013.

In the United Kingdom, stock markets reacted much as they did in the other countries monitored by REECOX. Britain's leading stock market index, the FTSE 100, declined by 24.8 % quarter on quarter to finish March at 7,542 points. The FTSE EPRA/NAREIT UK real estate index saw an even more pronounced change, losing 31.3 % to stand at 980.6 points and fall below the 1,000-point mark for the first time since 2013. Both equity indices decreased in each month of the first quarter. The development of business sentiment, as measured by Economic Sentiment Indicator (ESI), took a different path. In January and February, the ESI saw a significant rise in light of the EU-UK Withdrawal Agreement, which was signed in late January and helped to increase planning certainty. By contrast, the coronavirus-related decline in March was less pronounced. Accordingly, business sentiment improved by 92 points, or roughly 5.4 % quarter on quarter.

COMMENT ON THE MARKET



Markus Nitsche,
General Manager of
London Branch

“Just as the political uncertainty in the United Kingdom was abating towards the end of 2019, and just as market activity was returning to normal at the start of the year, along came the outbreak of the coronavirus to significantly impact economic activity around the world – and in Britain as well. In January, the forecast for growth in 2020 still stood at 1.1 %. Right now, however, the UK can expect to see a drop of roughly 12 % to 13 %. Not since the Second World War has economic growth fallen so sharply in such a short period of time. Naturally, the procyclical real estate sector is not immune to such crises. The British commercial real estate market is therefore acting with immense caution. Many investments and transactions are being postponed to a later, yet-to-be-determined date.”

“Naturally, the procyclical real estate sector is not immune to such crises.”

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
Moorfuhrweg 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

Disclaimer: The calculations presented in this publication were prepared by bulwiengesa to the best of their knowledge and with due care. Liability is assumed for material correctness within the scope of standard due diligence.

DEUTSCHE HYPO
Member of NORD/LB