



REECOX

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DEUTSCHE HYPO
REAL ESTATE ECONOMY INDEX

02-2020



Dear readers,

After 34 multifaceted and successful years at the NORD/LB Group, I am shifting my activities from Hanover to Hamburg, where I will be taking on new challenges at DZ HYP starting in January 2021.

Many thanks go out to all of you for all your support of the Deutsche Hypo REECOX over the years. My fellow Member of the Board of Managing Directors Andreas Rehfus will be taking my place. As part of the shift, he will also be taking over the responsibility for commenting on the Deutsche Hypo REECOX. I wish you all the best in the future!

Kind regards,
Sabine Barthauer

EURO SCORE DOWN OVERALL – POSITIVE TREND AT END OF THE QUARTER

In the first quarter of 2020, the Euro Score was dominated by the effects of the coronavirus pandemic, posting a decline of 9.4 % in all – the sharpest drop since the 2008 financial crisis. Across almost all of the countries monitored by REECOX, the second quarter started out in April with the steepest decline. Germany was an exception, having passed the peak back in March. Overall, the Euro Score lost 10.7 % that month. There was a modest positive trend in May, which saw a gain of 2.4 %, followed by a marked improvement in the overall economy in June, with growth at 5.0 %. Overall, the Euro Score lost about 4.0 % quarter on quarter.

In retrospect, the huge impact of the coronavirus crisis on the REECOX Germany, which already occurred in March, turns out to have been premature. The German real estate sector was the only one of the real

estate markets monitored by REECOX to close the second quarter with a gain (+3.4 %). While the decline in most of the other real estate markets was less sharp in the second quarter compared to the first, the negative trend intensified in the UK (Q1: -6.8 %, Q2: -11.0 %) and Poland (Q1: -6.7 %, Q2: -7.6 %) in the second quarter. In both cases, it should be borne in mind that the decline in the first quarter was below average because restrictions to fight the pandemic were put in place later in those countries. The United Kingdom has experienced the sharpest decline due to the impact of the pandemic since the start of the year, at 17.5 % (average -14.0 %).

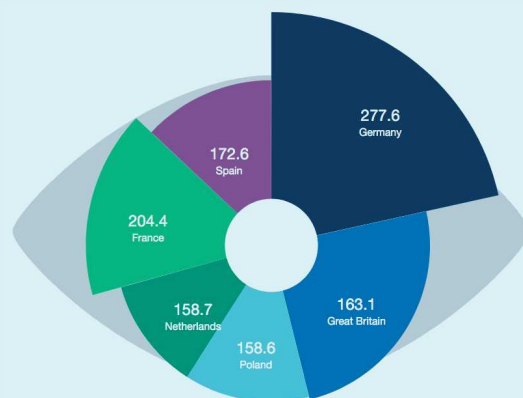
Dear readers,

The coronavirus pandemic is a huge challenge for the real estate sector, as in other areas. After a significant decline in the Euro Score in the first quarter, an increasingly positive trend was noted at the end of the second quarter. Still, it is too early to make solid forecasts about the long-term effects. It remains to be seen where things will go from here.

Kind regards,
Andreas Rehfus

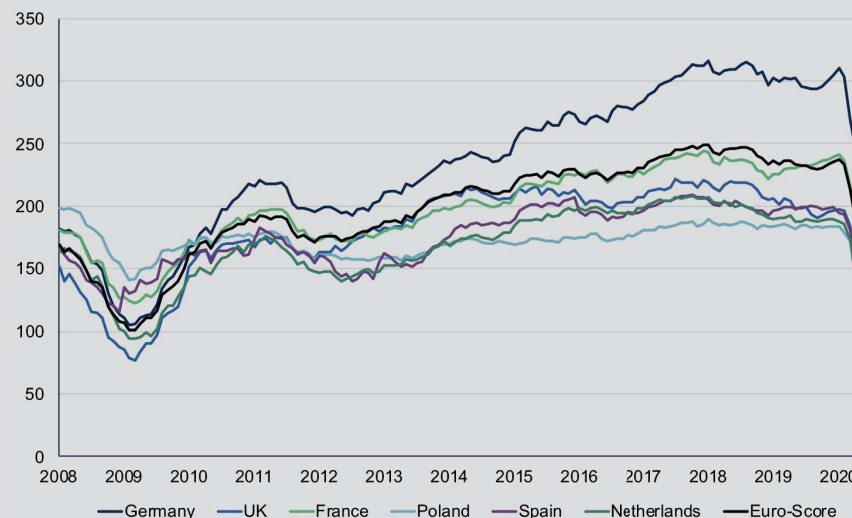


DEUTSCHE HYPO REECOX-EYE



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 June 2020



DEUTSCHE HYPO EURO-SCORE

204.6



GERMAN REAL ESTATE SECTOR SHOWS RAPID RECOVERY

Germany was the only one of the countries monitored by REECOx to post gains over the previous quarter, which was marked by the impact of the coronavirus pandemic. While the downward trend continued in April (-7.7 %), the months of May (+5.7 %) and June (+6.0 %) both contributed to the positive quarterly result, which now stands at 277.6 points (+3.4 %). All in all, Germany's real estate sector is experiencing the fastest recovery in Europe, reinforcing the importance of the German real estate market as a European "safe haven".

The headline German index, the DAX, responded to the COVID-19 crisis with a sharp loss of 25.0 % in the first quarter, followed by a pronounced bounce back in the second quarter. Monthly growth rates in the high single digits were posted, resulting in increase of almost 24.0 % at the end of the quarter. Germany's DIMAX real estate share index traced a similar curve, with a near 17.0 % decline in the first quarter followed by a turnaround in the second quarter. In all, the DIMAX stands at about 888 points at the end of June, nearly 18.0 % higher than in the previous quarter. The business climate as measured by the European Sentiment Indicator (ESI) in Germany recovered significantly in the months after a sharp decline in April, but still did not reach a positive figure at the end of the second quarter. The second quarter closed with an overall decline of 11.0 %.

COMMENT ON THE MARKET



Harald Nolterieke,
Head of Munich
Office

"The industry has adjusted to the situation which has changed due to the coronavirus. The banks have analysed their portfolios, and investment funds have reviewed their strategy. Transactions that had been postponed are increasingly brought back, and new deals are considered. This development is also reflected in the Euro Score. It recovered to 204 points in June, after reaching 190 points in April. The real estate market remains attractive, and prices are stable. The demand side is dominated by European investors. Investors have adopted a wait-and-see approach to deals involving retail properties. The background is the continued shift of purchases to the Internet. Investors are also still cautious about hotel investments. There have been hardly any delays on the project development side. Construction has resumed. As companies are reluctant to sign larger leases, project developers are currently staying away from speculative developments."

"The real estate market remains attractive."

Key figures of the real estate economies

Country	Change of input variables in Q2-20					Change of the real estate economy Q1-20 / Q2-20	Values of the real estate economy				
	Leading share index	Real estate share index	Indicator of economic sentiment	Basic interest rate	Risk-free interest rate		Q1-20	Apr 20	May 20	Q2-20	Delta (%) Q1-20 / Q2-20
Germany	↑	↑	↓	→	↗		268	248	262	278	3.4
UK	↑	↗	↓	→	↘		183	157	158	163	-11.0
France	↑	↘	↓	→	→		216	194	194	204	-5.2
Netherlands	↑	↗	↓	→	→		173	144	148	159	-8.1
Poland	↑	↗	↓	↓	↓		172	151	151	159	-7.6
Spain	↗	↗	↓	→	→		181	163	164	173	-4.6

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