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

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 EURO-SCORE

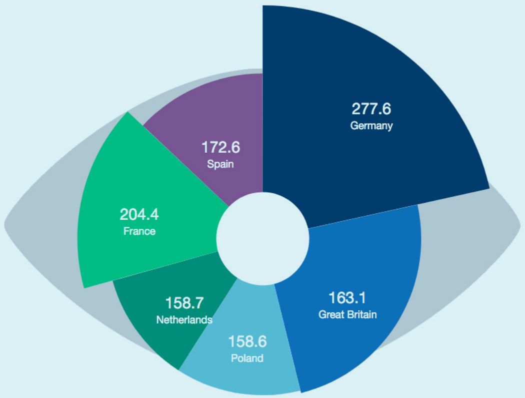
204.6

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.

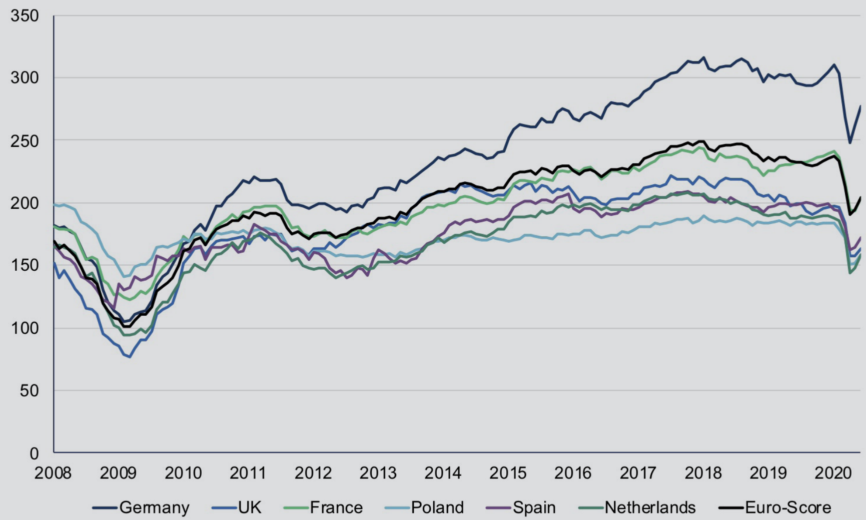
In retrospect, the huge impact of the coronavirus crisis on the REECOX Germany, which already occurred in March, turns out to have been premature. The German real estate sector was the only one of the real estate markets monitored by REECOX to close the second quarter with a gain (+3.4 %). While the 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 %).

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



SPANISH REAL ESTATE SECTOR STILL BELOW PREVIOUS QUARTER'S LEVEL

The Spanish real estate sector saw a double-digit decrease (-10.0 %) in April, as in almost all countries monitored by REECOX. From May on, a slight upturn began (+0.8 %), which then picked up steam in June (+5.2 %). At 172.6 points, the index value is still below the previous quarter's level, with a loss of 4.6 % in relative terms. This puts the Spanish real estate market in the middle of the REECOX. Still, an upward trend is apparent.

The Spanish stock markets were hard hit by the COVID-19 crisis in the first quarter, especially in March. The IBEX 35 leading share index lost about 29.0 %. The second quarter showed slight and steady gains, with monthly growth rates of around 2.0 %, which add up to a gain of 6.6 % compared to the previous quarter. The ES BCN 5 Property real estate share index also rose, gaining about 4.9 % from the previous quarter, although its positive trend was briefly interrupted by a significant decline of 6.6 % in May. The Spanish business climate as measured by the Economic Sentiment Indicator (ESI) did not show a clear response to the coronavirus crisis until April, for a markedly negative quarterly result (-16.3 %). However, May and June brought a return to positive growth rates.

COMMENT ON THE MARKET

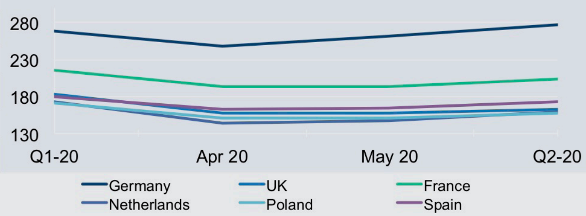
Maite Linares,
Managing Director
Office Madrid

"After the first half of the year was associated with many challenges due to the coronavirus pandemic, a recovery is slowly taking shape. Despite the far-reaching consequences, including for the real estate industry, the impact has so far been less severe than initially feared. Transactions are down somewhat, but they are being concluded regularly in the meantime. The coronavirus stimulus packages adopted by the EU have been contributing to a certain stability, and they are having a positive effect on the markets. However, the full impact of the pandemic will become apparent with a time lag. There are already signs of changes in the way we live and in our culture overall. A lot of people have so far preferred to live in urban centres. The pandemic has brought issues like working from home – which eliminates commutes as a consideration – and the desire for freedom and openness to the fore instead. As a result, living outside major metropolitan areas is becoming increasingly attractive. This shows that we are changing in many ways, but the depth and direction of the transformation are still unclear."

"Despite the far-reaching consequences, the impact has so far been less severe than initially feared."

Key figures of the real estate economies

Country	Change of input variables in Q2-20: Leading share index	Real estate share index	Indicator of economic sentiment	Basic interest rate	Risk-free interest rate	Change of the real estate economy Q1-20 / Q2-20	Values of the real estate economy: 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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