



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



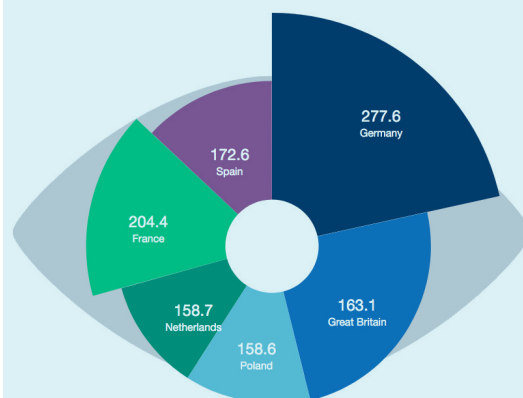
EURO SCORE DOWN OVERALL – POSITIVE TREND AT END OF THE QUARTER

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

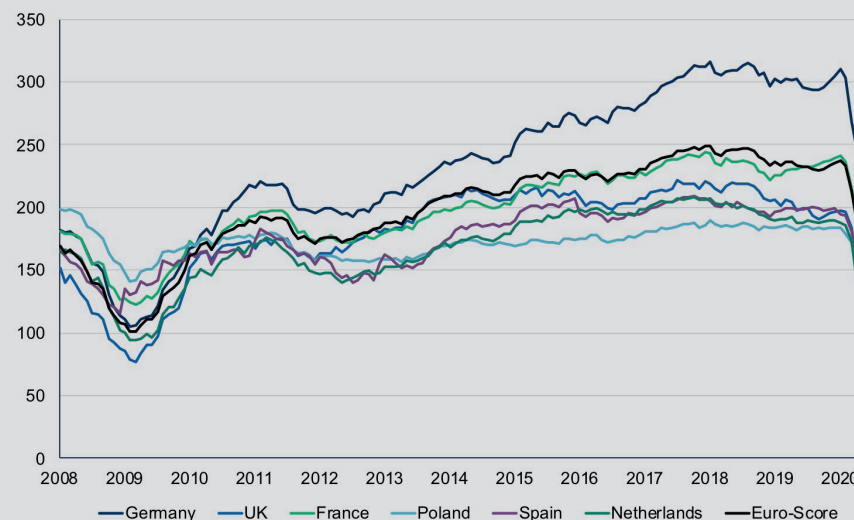
estate markets monitored by REECOX to close the second quarter with a gain (+3.4 %). While the decline in most of the other real estate markets was less sharp in the second quarter compared to the first, the negative trend intensified in the UK (Q1: -6.8 %, Q2: -11.0 %) and Poland (Q1: -6.7 %, Q2: -7.6 %) 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



DEUTSCHE HYPO EURO-SCORE

204.6



REECOX UK SEES SHARPEST DECLINE IN THE SECOND QUARTER

Overall, the REECOX UK showed a similar trend to that seen in most of the real estate markets monitored by REECOX: A significant negative development (-6.5 %) in March was followed by an even sharper drop of 14.1 % at the start of the second quarter and then by a flat trend in May (+0.3 %) and initial signs of recovery in June (+3.3 %). However, this has so far been less pronounced in the UK, with the result that the second quarter as a whole was 11.0 % down on the previous quarter, the sharpest decline in a European comparison.

The FTSE 100 leading index experienced a downward trend throughout the first quarter, a tendency that increased towards the end of the quarter. Like in all countries monitored by REECOX, an initial recovery began in April and continued in the months that followed. Overall, the index rose by 8.8 % to stand at 6,169 points at the end of June. The FTSE EPRA/NAREIT UK real estate share index took a different path: After a sharp drop in the first quarter, the index also saw a slight upturn in April (+6.7 %), but resumed its downward trend in the months after that. The index closed the quarter with a slight gain of 1.5 %, but in light of the sharper decrease in the first quarter, the British market for real estate shares cannot yet be said to be in recovery. The coronavirus pandemic did not weigh on the business climate as expressed in the Economic Sentiment Indicator (ESI) until the second quarter. The indicator fell by one-third in April, followed by another negative month in May (-1.1 %). June brought a slight recovery here as well, with the figure rising by 5.7 % to 65.2 points.

COMMENT ON THE MARKET



Markus Nitsche,
General Manager of
London Branch

"The UK continues to feel the effects of the coronavirus pandemic in the second quarter. This is reflected in GDP, which is once again down sharply, by about 15 percent. Real estate investors are also still cautious. We are seeing transactions again, but the volume in central London alone was down by 77.0 percent compared to the first quarter. Projects are delayed, and developments that are already under way are slowing down due to the restrictions on site. Distress sales have been the exception so far, but they could increase towards the end of the year. There is sufficient liquidity in the market, primarily flowing towards offices, logistics and residential properties. Properties with long-term leases to tenants with good credit ratings are preferred. It remains to be seen how things will develop from here. That is also true for the labour market, which has not yet been significantly affected by the pandemic. That could change significantly when the government support payments expire in the fourth quarter of 2020."

"Despite high liquidity in the market, investors are still cautious, as expected."

Key figures of the real estate economies



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