



# REECOX

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DEUTSCHE HYPO  
REAL ESTATE ECONOMY INDEX

## 03-2020



Dear readers,

*the coronavirus pandemic has brought considerable restrictions to our everyday lives and the economy. The resulting uncertainty is also*

*visible in the Euro Score, which declined significantly in the first and second quarters. In the middle of the year, an initial recovery was seen in all countries monitored. This trend is also reflected in the business indicators. They had to accept significant slumps at the beginning of the pandemic, but companies are now assessing the current situation and economic development more positively again. Nevertheless, some significant differences can be noted between the countries. While the REECOX Germany has already returned to its pre-crisis level, the other countries monitored by REECOX have not yet been able to do the same. In addition, the infection rates have risen considerably in the past few weeks. This has the potential to quickly offset the positive development seen in the summer months. The challenge now is to contain the spread of infection as quickly as possible, as the long-term impact on the economy also depends on this.*

Kind regards,  
Andreas Rehfu

DEUTSCHE HYPO EURO-SCORE

## 222.1

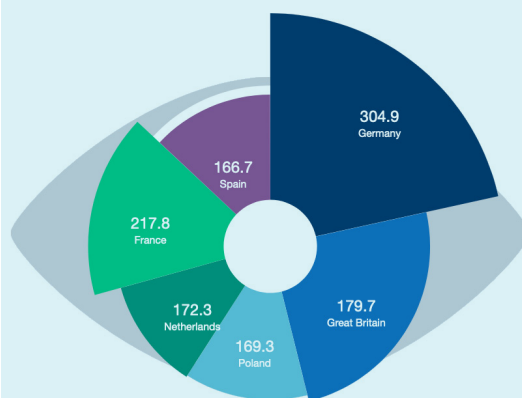
## EURO SCORE NEARING PRE-CRISIS LEVEL

As a result of the coronavirus crisis, the first half of 2020 was characterised by a general economic downturn, which is also reflected in the dynamics of the Euro Score. The positive trends observed towards the end of the second quarter continued throughout the third quarter. However, the upward trend slowed down in September (+0.8 %) after a relatively strong July (+4.1 %) and August (+3.8 %). Overall, growth stood at 8.9 %, bringing the Euro Score up to 222 points and helping it to nearly match its pre-crisis levels.

A recovery in the German real estate sector was already noticeable in the second quarter. This trend accelerated in the third quarter, allowing the REECOX Germany to temporarily reach its pre-crisis level. At 10.1 %, the REECOX UK experienced the strongest growth. However, this growth must be seen in the context of the double-

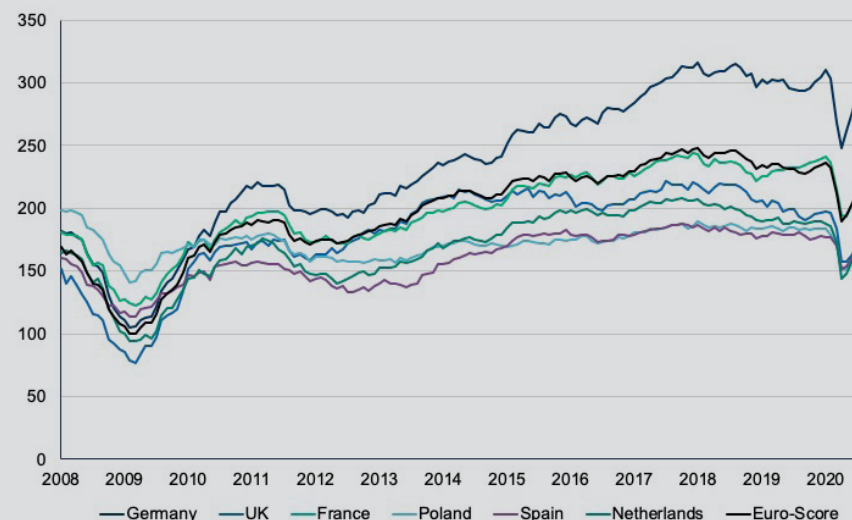
digit and even stronger decline in the previous quarter, which puts this development into perspective. The REECOX Spain showed a comparatively weak performance, increasing by only 3.2 % in the third quarter in light of the strong upward trend overall. The figures in France (+6.4 %), Poland (+6.8 %) and the Netherlands (+8.6 %) were in the mid range of the overall positive trend, but were not yet able to return to pre-crisis levels.

## 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 September 2020





## REECOX SPAIN SHOWING SLOW RECOVERY

The economic recovery observed in all of the countries monitored by REECOX is also taking place in Spain. However, said recovery is proving to be relatively subdued. The first two quarters of the year were significantly negative, and in the third quarter only July (+3.4 %) offered any noticeable positive performance. August (-0.5 %) and September (+0.3 %) were all about stagnation and could signal reticence given how hard Spain was hit by the start of the pandemic and the imminent threat of a second wave. The leading share index in Spain, the IBEX 35, recorded slight recovery in the second quarter, but was unable to continue this trend into the third quarter. Its performance was volatile, with a significant decline of -4.9 % recorded in July followed by a slight upward trend of +1.3 % in August and another dip of -3.6 % in September. Overall, the index was down -7.1 % in the third quarter. The Spanish real estate index\* FTSE EPRA NAREIT Spain was in similar shape, declining in September by -5.0 % following a negative July (-6.4 %) and a positive August (+4.3 %). This translates to a fall of -7.2 % for the third quarter. Business sentiment in Spain, as measured by the Economic Sentiment Indicator (ESI), stood in contrast to market performance. Here, business sentiment was initially able to match the extremely positive trend towards the end of the second quarter in July (+9.0 %). The decline in August (-2.8 %) was followed by a slight rise in September (+1.8 %), resulting in gains of 7.9 % being recorded in the third quarter overall.

\* The BCN Property 5 index, which was previously used, was discontinued in June 2020. The FTSE EPRA NAREIT Spain index, operated by the European Public Real Estate Association (EPRA), serves as a replacement since Q3/2020. This reference is already in use by REECOX (UK, France, Netherlands) and has proven to be a solid market indicator.

## COMMENT ON THE MARKET



Maite Linares,  
Managing Director  
Office Madrid

“The coronavirus pandemic has led to many transactions being postponed initially. As a result, investment volume is expected to decline by the end of the year by approximately 30 % compared to the record-breaking year of 2019. The coronavirus pandemic has brought forward the end of the cycle by a considerable margin. Falling rates of infection in Spain led to restrictions being loosened in the country after a long period of lockdown. As a consequence, an increased number of transactions took place in the third quarter, with the market picking back up and a certain sense of normality returning. Interest in the market among international investors is very high at the moment, but there is also a degree of uncertainty. It remains to be seen what effect the increased numbers of people working from home will have on the office market. The transformation in the retail sector has also been kicked up a notch, while the hotel market continued to be strongly affected by the pandemic in the summer. At the moment business is expected return to pre-pandemic levels by the year 2022. However, much depends on how the pandemic progresses – and unfortunately it appears to be spreading again. Due to Spain’s reliance on other EU markets such as Germany, a close eye should be kept on further developments there too.”

*“The easing of lockdown restrictions led to the number of transactions increasing.”*

### Key figures of the real estate economies

| Country     | Change of input variables in Q3-20 |                         |                                 |                     |                         | Change of the real estate economy Q2-20 / Q3-20 | Values of the real estate economy |        |        |       |                         |
|-------------|------------------------------------|-------------------------|---------------------------------|---------------------|-------------------------|---|-----------------------------------|--------|--------|-------|-------------------------|
|             | Leading share index                | Real estate share index | Indicator of economic sentiment | Basic interest rate | Risk-free interest rate |   | Q2-20                             | Jul 20 | Aug 20 | Q3-20 | Delta (%) Q2-20 / Q3-20 |
| Germany     | ↗                                  | ↗                       | ↗                               | →                   | ↗                       |   | 278                               | 290    | 307    | 305   | 9.8                     |
| UK          | ↘                                  | ↘                       | ↗                               | →                   | ↘                       |   | 163                               | 172    | 174    | 180   | 10.1                    |
| France      | ↘                                  | ↘                       | ↗                               | →                   | →                       |   | 205                               | 207    | 216    | 218   | 6.4                     |
| Netherlands | ↘                                  | ↘                       | ↗                               | →                   | ↗                       |   | 159                               | 163    | 172    | 172   | 8.6                     |
| Poland      | ↘                                  | ↗                       | ↗                               | →                   | ↘                       |   | 159                               | 165    | 170    | 169   | 6.8                     |
| Spain       | ↘                                  | ↘                       | ↗                               | →                   | ↘                       |   | 162                               | 167    | 166    | 167   | 3.2                     |

Source: bulwiengesa AG

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