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 Rehfus

DEUTSCHE HYPO EURO-SCORE

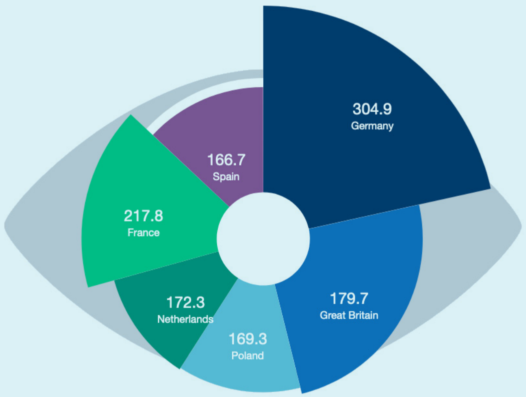
222.1

EURO SCORE NEARING PRE-CRISIS LEVEL

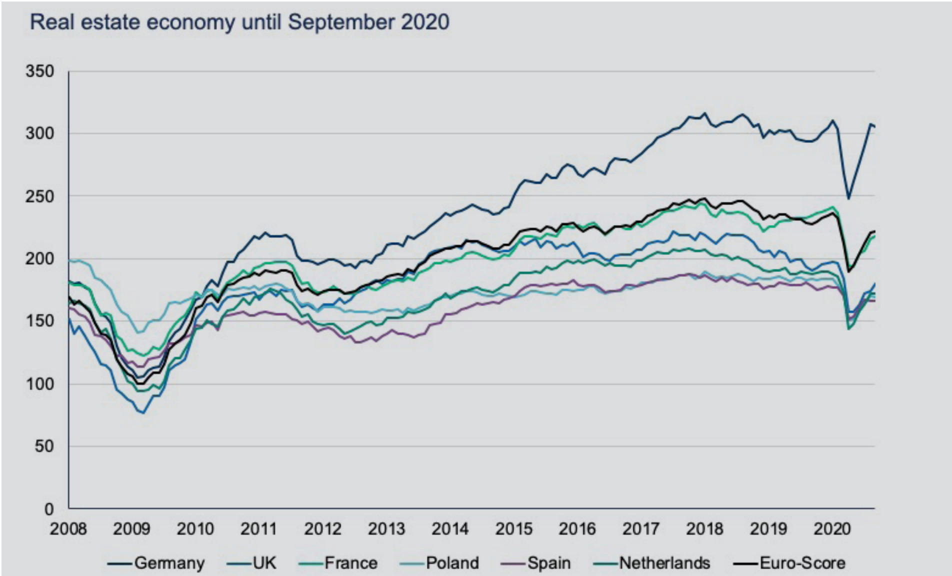
As a result of the coronavirus crisis, the first half of 2020 was characterised by a general economic downturn, which is also reflected in the dynamics of the Euro Score. The positive trends observed towards the end of the second quarter continued throughout the third quarter. However, the upward trend 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).



FIRST POSITIVE QUARTER FOR REECOX FRANCE SINCE THE START OF THE CORONAVIRUS CRISIS

Following the particularly severe blow dealt by the coronavirus crisis to the French REECOX in the first half of the year, the third quarter was consistently positive: while the months of July (+0.9 %) and September (+0.8 %) recorded only marginal growth rates, the upward trend was mainly driven by the upswing in August (+4.6 %). Overall, the quarter closed with a gain of 6.4 % and now stands at 217 points. At the end of the second quarter, the generally positive development of the input variables indicated a rapid recovery, but performance in the third quarter was actually rather mixed. While the stock markets declined again, the business climate showed a consistently positive development. The French stock market, represented by the leading index CAC 40, declined for the most part (July -3.1 %, August +3.4 %, September -2.9 %) and closed the third quarter at 4,803 points, down 2.7 %. The trend was even clearer in the FTSE EPRA/NAREIT France real estate share index. A significant decline in July (-7.4 %) was followed by stagnation in August (+0.3 %) and another significant slump in September (-6.3 %). Overall, the third quarter saw a double-digit negative development of 13.0 % to stand at around 2,318 points, its lowest figure since summer 2009. By contrast, the French business climate, as measured by the European Sentiment Indicator (ESI), was entirely positive. It increased in all three months, with the result that the third quarter closed with double-digit growth of 24.6 % and 96.6 points overall.

COMMENT ON THE MARKET

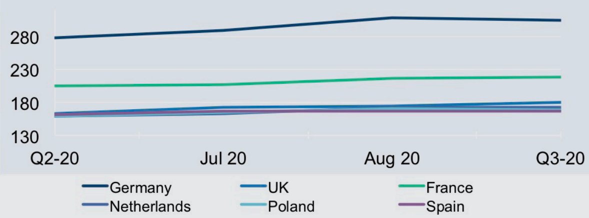
Anne-Isabelle Carbonnières, Managing Director Office Paris

"Following a decrease in the number of infections in summer, the restrictions on public life were eased. Although this led to an upswing in the economy, the effects of these restrictions are clearly noticeable: occupancy rates on the office market fell by 58 % year on year. Many projects were still in the pipeline, meaning that the actual coronavirus impact will not be visible until the fourth quarter. Investment volume fell by a significant 49 %, while the vacancy rate increased by 1 % to 6 %. Challenges also arise from the very expensive coronavirus aid packages from the states, which will further increase the already high national debt. However, as there is still a lot of liquidity available, the demand for real estate investments – especially for secure properties – remains high. Rents in very good locations rose by a further 9 %. A micro-bubble for prime properties seems to be forming at the moment. It is important to keep the number of infections as low as possible to avoid further restrictions and any associated further economic effects."

"Occupancy rates on the office market fell by 58 % year on year."

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**



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