



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

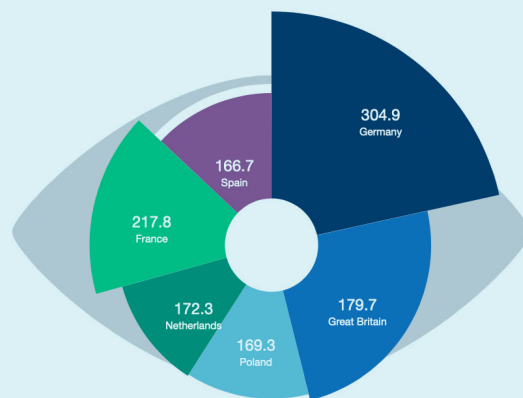
EURO SCORE NEARING PRE-CRISIS LEVEL

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-

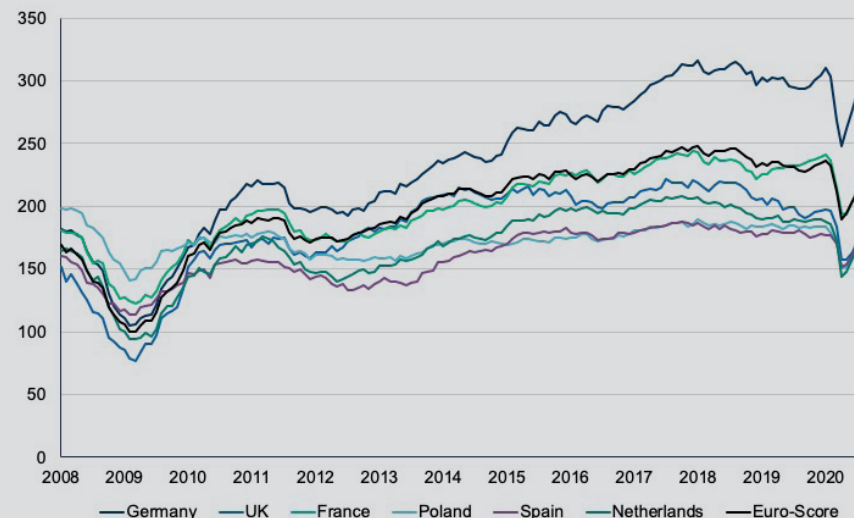
digit and even stronger decline in the previous quarter, which puts this development into perspective. The REECOX Spain showed a comparatively weak performance, increasing by only 3.2 % in the third quarter in light of the strong upward trend overall. The figures in France (+6.4 %), Poland (+6.8 %) and 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).

Real estate economy until September 2020





RECOX POLAND CONTINUES RECOVERY IN THIRD QUARTER

The recovery trend observed in Poland at the end of the second quarter continued into the third quarter. Recovery was quite significant in July (+3.8 %) and August (+3.2 %), but stagnation then set in in September (-0.3 %). All in all, REECOX Poland was able to increase by 6.8 % quarter on quarter to reach 169 points. Polish stock markets were able to generate recovery relatively quickly after the start of the coronavirus crisis, showing stable performance in the third quarter overall. The leading Polish index, the WIG 20, recorded positive performance at the start of the third quarter in July (+0.5 %) and August (+1.8 %), followed by a decline in September (-4.9 %). At the close of the quarter, performance was negative and the index stood at 1,712 points, which translates to a decline of 2.6 %. The WIG Developers real estate index also declined in September (-3.7 %) after initially positive performance (July: +0.8 %, August: +4.5 %). All in all, the index closed the quarter at 2,148 points, up 1.4 % on the previous quarter. There was also a significant increase in business sentiment in Poland as measured by the Economic Sentiment Indicator (ESI). After closing the second quarter strongly, the trend continued with double-digit growth rates in July (+18.4 %) and August (+10.9 %), followed by a further increase of 3.0 % coming in September. At 78 points, sentiment may have yet to return to pre-crisis levels, but the significantly positive trend in the third quarter (+35.2 %) is reason for optimism.

COMMENT ON THE MARKET



Beata Latoszek,
Managing Director
Office Warsaw

“The recovery of the real estate market observed in the second quarter continued in the third quarter. There is still a large volume of liquidity in the market, which translates to further high demand for real estate and stable purchase prices. Logistics, office and residential properties remained the preferred targets for investment. Besides Warsaw, the cities of Kraków, Wrocław and Gdańsk were also particularly interesting locations. The latter benefits from lower rents compared to the Polish capital, as well as strong demand for shared service centres and back offices in the office sector. Commercial rental agreements have become more flexible during the coronavirus pandemic. Expiring agreements with terms of three to five years are often being extended for short periods of time, with many tenants deferring final business decisions into the new year. Unfortunately, new and in some cases significant restrictions on public life are emerging in response to the current rise in rates of infection. According to initial figures, we are likely to see an economic downturn in the fourth quarter.”

“Commercial rental agreements have become more flexible during the coronavirus pandemic.”

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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