



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

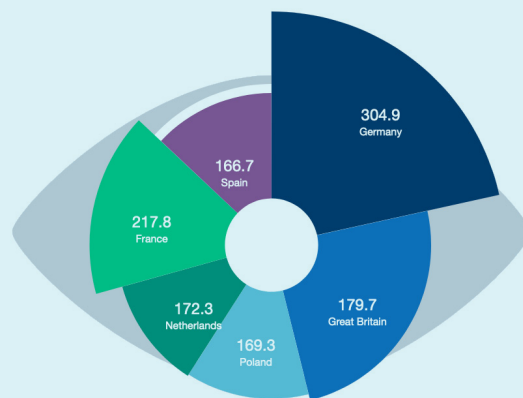
EURO SCORE NEARING PRE-CRISIS LEVEL

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-

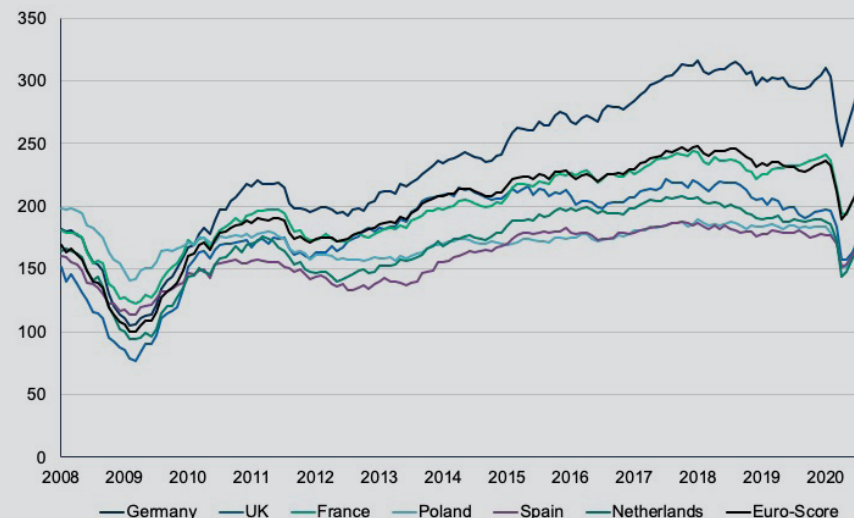
digit and even stronger decline in the previous quarter, which puts this development into perspective. The REECOX Spain showed a comparatively weak performance, increasing by only 3.2 % in the third quarter in light of the strong upward trend overall. The figures in France (+6.4 %), Poland (+6.8 %) and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





REECOX UK ACHIEVES DOUBLE-DIGIT RECOVERY

Despite recording the most negative performance of any REECOX-monitored real estate market in the second quarter, the REECOX UK was able to increase by 10.1 % in the third quarter to reach 179 points. Performance has been positive across the board. While July (+5.7 %) was able to build on the relatively strong performance in the second quarter, growth in August (+1.0 %) and September (+3.2 %) was a little weaker. Although the leading FTSE 100 index saw the most significant recovery of all input variables in the second quarter, the trend was reversed in the third quarter. The index declined by 4.4 % at the start of the quarter in July, followed by a slight increase of 1.1 % in August and a dip of -1.6 % in September. Overall, the index declined by -4.9 % to 5,866 points. The trend on the FTSE EPRA/NAREIT UK real estate share index is also negative. Even though the index climbed above the 1,000-point mark for a while in July (+2.9 %) and August (+0.2 %), the decline of -5.1 % in September eroded the gains. Overall, the index fell by 2.1 % in the third quarter to 973 points. The recovery of the Economic Sentiment Indicator (ESI) in the UK in June continued in the third quarter. In spite of a negative signal of -0.5 % in August, double-digit increases in July (+15.8 %) and September (+10.5 %) led to record gains and mean that the index is nearing pre-crisis levels.

COMMENT ON THE MARKET



Markus Nitsche,
General Manager of
London Branch

“The second wave of the coronavirus pandemic has arrived, as was feared in the summer. Countries all over Europe are in lockdown. Restrictions have been tightened significantly in the United Kingdom once again, delaying the market recovery that began to emerge from the summer onwards. A number of transactions were completed prior to the end of the third quarter, with many projects reaching completion in the office sector too. However, most of these projects are from the last one to two years. Overall, transactions in London have tumbled by 50 % year on year. The retail and hotel industries remain causes for concern. On the other hand, the residential market is proving to be surprisingly stable, with significant excess demand despite the coronavirus pandemic and Brexit. Average yields have stayed relatively stable across all regions and asset classes. All that remains to be seen is how the pandemic and Brexit negotiations progress.”

“Transactions in London have tumbled by 50 % 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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