



REECOX

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DEUTSCHE HYPO
REAL ESTATE ECONOMY INDEX

03-2021



Dear Readers,

After recording strong growth at times in the past four quarters, the Euro Score experienced a slight slowdown in its positive trend in the

third quarter of 2021, rising by 0.2 % overall to 261.8 points. Several countries saw minor quarter-on-quarter losses for the first time since the second quarter of 2020, with the Euro Score falling in Germany, France and the Netherlands. While the second half of the year began well in all countries monitored, September in particular was marked by downturns.

All in all, we are still at a very high level, and real estate remains an extremely sought-after asset class. The important thing at present is to keep a close eye on interest rates and inflation. At 4.1 % in Germany, the latter is currently at its highest since 1993. Taking into account the extraordinary effects from the second half of the year, it remains within the ECB's target corridor when viewed from a two-year perspective. Nevertheless, negative interest rates and these inflation figures are leading to a devaluation in real terms, increasing the pressure on central banks.

Kind regards
Frank Schrader

DEUTSCHE HYPO EURO-SCORE

261.8

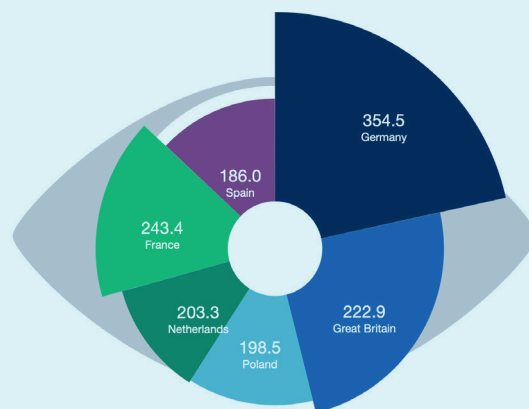
UPTURN IN REECOX EURO SCORE SLOWED

Following the positive developments in the first half of 2021, the Deutsche Hypo REECOX European Real Estate Economy Index (Euro Score) remained virtually unchanged in the third quarter. At 261.8 points, the index is only slightly above the figure at the end of the second quarter (+0.2 %). Nevertheless, it reached another all-time high (since January 1991).

Overall, the REECOX did not display any significant upward or downward movements in any of the countries monitored. While growth rates of up to 9.0 % (REECOX Poland) were observed in the second quarter, development in the individual countries was more or less stable in the third quarter. The highest increases were recorded in Spain and the United Kingdom (1.4 % in each case). The REECOX UK climbed to a new all-time high of 222.9 points. The REECOX Poland was up 0.4 %

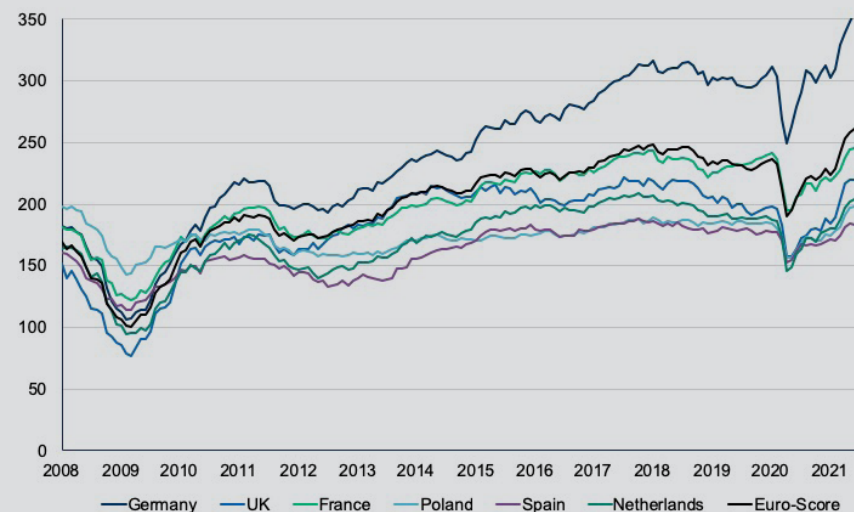
quarter-on-quarter to just under 200 (198.5 points). Following four positive quarters, Germany and the Netherlands posted negative quarter-on-quarter trends for the first time, dropping 0.5 % in each case to 354.5 points (REECOX Germany) and 203.3 points (REECOX Netherlands). The poorest European performer was the REECOX France, which fell by 0.8 % to 243.4 points.

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 2021





REECOX UK AT NEW ALL-TIME HIGH

Like its European counterparts, the UK Real Estate Economy Index proved virtually stable in the third quarter. A 1.3 % increase in July was followed by a sideways movement in August (+0.1 %) and then no change whatsoever in September. The REECOX UK closed the third quarter at 222.9 points – a new all-time high (since January 1991).

The new record achieved by the REECOX UK is due to the generally positive performance of all input variables. The FTSE EPRA/NAREIT UK real estate share index posted the highest quarter-on-quarter growth of 3.8 %, reaching 1,303.8 points at the end of Q3 in September. The FTSE 100 blue-chip index showed no significant upward or downward movements, which resulted in a stable development of +0.7 % to 7,086.4 points. The business climate as measured by the Economic Sentiment Indicator (ESI) remained in positive territory in the third quarter, but displayed a more muted trend compared with Q2: after beginning Q3 with a 1.9 % increase, the ESI was almost unchanged in August (-0.4 %) and September (+0.3 %). The high quarter-end figure of 107.2 points had previously not been seen since October 2018.

COMMENT ON THE MARKET



Claudia Nacke,
Head of Real Estate
Finance UK, London
Branch

“In common with the rest of Europe and the world, we are seeing signs of “stagflation” as supply chain interruptions are holding back growth and inflation is increasingly becoming a factor. This is likely to feed through to development tender prices in the near future. UK real estate has generally performed well during 2021 and most sectors are seeing stability or positive investor sentiment. Cross border capital flows mainly from North America increased significantly in H1 2021 and domestic institutional purchasers continue returning to the market chasing yield. PRS and supermarkets continue to attract strong interest whilst the logistics sector is outperforming. ESG criteria and altered working patterns as staff return to the office are driving demand for high quality and green buildings in the office sector. Active tenant requirements equate to ca 10mln qm² currently, about 40% higher than last year. Overall, the UK real estate outlook remains positive against a background of slowing economic recovery, with near term interest rate rises seeming to be held back despite rising inflation.”

“UK real estate has generally performed well during 2021.”

Key figures of the real estate economies

Country	Change of input variables in Q3-21					Change of the real estate economy Q2-21 / Q3-21	Values of the real estate economy				
	Leading share index	Real estate share index	Indicator of economic sentiment	Basic interest rate	Risk-free interest rate		Q2-21	Jul 21	Aug 21	Q3-21	Delta (%) Q2-21 / Q3-21
Germany	↘	↘	→	→	→	380	356	360	362	355	-0.5
UK	→	↗	↗	→	→	340	220	223	223	223	1.4
France	→	↘	↘	→	↘	300	245	251	248	243	-0.8
Netherlands	↗	↘	↘	→	↘	260	204	206	205	203	-0.5
Poland	↗	↗	↘	→	→	220	198	198	199	199	0.4
Spain	→	→	↗	→	↘	180	183	185	185	186	1.4
						140					

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