



REECOX

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DEUTSCHE HYPO
REAL ESTATE ECONOMY INDEX

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Dear Readers,

Just about two years ago, we started hearing the initial reports about the coronavirus. Since then, the virus has been having an impact on every aspect of our lives and has brought about more than just a few changes. The effects have been palpable in the real estate sector as well and continue making themselves felt to this day. Still, an investment volume of around € 60 billion in the German commercial property sector in 2021 suggests that the demand for real estate remains very high – and that the asset class itself has lost none of its appeal.

This positive trend is also reflected in the Euro Score. Despite seeing a slight decline in the fourth quarter following months of gains, the increase of 12.6 % year on year indicates that the real estate market has recovered overall. The hope remains that the spread of the coronavirus can be contained once again in 2022. In addition to the challenges posed by the pandemic, the key issues we see are inflation, central bank policy and the development of interest rates.

Kind regards
Frank Schrader

DEUTSCHE HYPO EURO-SCORE

257.9

REECOX EURO SCORE FALLS SLIGHTLY AS THE YEAR ENDS

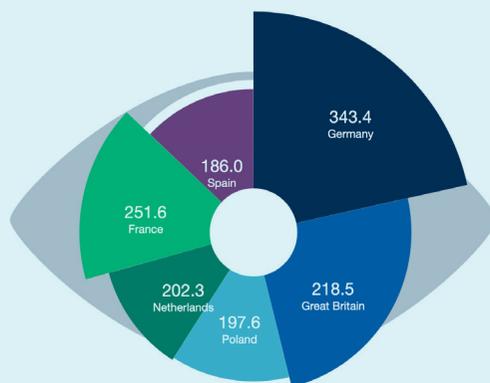
Despite the clear evidence of an overwhelmingly positive trend in the most recent quarterly reports and some significant growth in the European real estate sector (as measured by the Euro Score), the tendency towards the end of the year was rather sobering. Having closed December at 257.9 points, the Deutsche Hypo REECOX (Euro Score) fell by 1.5 % compared to the previous quarter. While October saw gains (+1.1 %), November (-2.3 %) and December (-0.3 %) were beset by losses. Overall, the Euro Score increased by a remarkable 12.6 % last year. The last time a rise of this nature was observable over the course of a year was in 2013.

Towards the end of the year, the majority of the countries monitored by the REECOX exhibited downward trends – albeit to a different extent in each case. The clearest negative movement was in Germany (-3.2 %) and the United Kingdom (-2.0 %), whereas the Polish and Dutch real estate

sector indices more or less stagnated (-0.5 % each). The REECOX France stood out for all the right reasons in the final quarter of 2021. By rising 3.3 % to 251.6 points at the end of the year, the index posted the strongest growth in Europe.

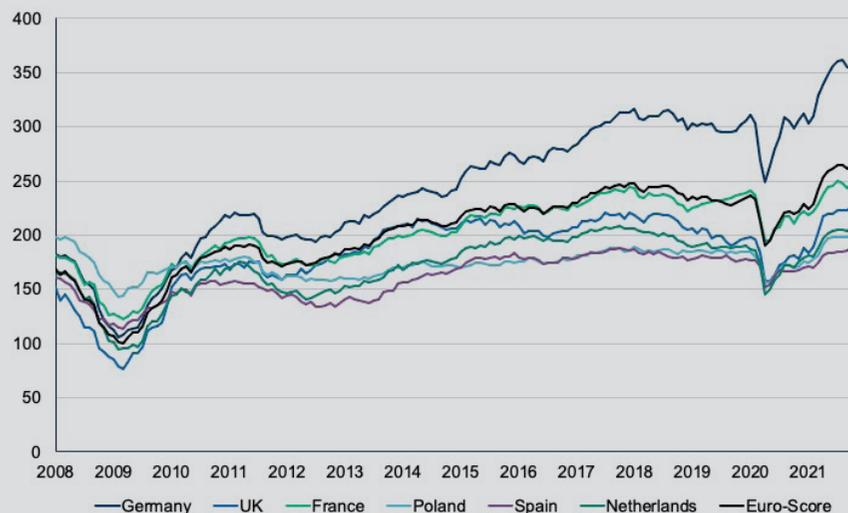
Over the course of 2021 as a whole, however, every country monitored saw an increase without exception. The steepest rises were reported in the United Kingdom (+16.2 %), followed by France (+13.3 %) and the Netherlands (+13.2 %). Both Poland (+12.4 %) and Germany (+10.0 %) also posted double-digit growth rates compared to the previous year. Although the REECOX Spain was the worst-performing index, at +9.5 %, it was the only one to remain positive in every quarter.

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 December 2021





FRENCH REAL ESTATE SECTOR ENDS THE YEAR ON A HIGH NOTE

Following somewhat negative development in the third quarter, the French real estate sector saw a strong turnaround towards the end of the year. Compared to the other European markets monitored by REECO, the REECO France recorded consistently positive month-on-month development in all three months that resulted in growth of 3.3 % to 251.6 points. Overall, the REECO value for France increased by a stellar 13.3 % in 2021, corresponding to the second-highest rise of any country.

Input variables are positive across the board. The FTSE EPRA/NAREIT France real estate share index returned to growth of 2.4 % on the heels of negative development in the preceding quarter. At around 2,976 points in late December, the index barely missed out on the 3,000-point mark. The recovery of the French blue-chip CAC 40 index was even more marked. Following an impressive rise of 9.7 % quarter on quarter, the index stood at roughly 7,153 points at the end of the year, setting a new all-time high in the process. The business climate, as measured by the Economic Sentiment Indicator (ESI), picked up somewhat towards the end of the year, bringing it to 114.9 points for a total gain of 3.3 % compared to the previous quarter.

COMMENT ON THE MARKET



Anne-Isabelle Carbonnières,
Managing Director
Office Paris

„In 2021, investments in commercial real estate totalled € 26.7 billion – a decline of 8 % year on year. The ten-year average stands at € 28.2 billion, which is also higher than the above figure. Developments in office real estate were uneven. While investments fell in Paris, the surrounding regions are growing ever more attractive, due in part to the increased reliance on remote working options. However, the actual long-term trend remains to be seen. The total investments of around 1.0 million sqm in hotels illustrates the significant drop in demand for this asset class. At 1.8 million sqm, the letting market developed positively. The tremendous office property pipeline prior to the pandemic is likewise reflected in the impressive figure of 153 construction sites. Between April and September 2021 alone, just under 500,000 sqm entered the market for the first time. Growth is apparent overall despite the challenges associated with the coronavirus pandemic. Nevertheless, in light of the rising interest rate trend, it is safe to assume that financial markets will remain volatile in France as well.”

“At 1.8 million sqm, the letting market developed positively.”

Key figures of the real estate economies

Country	Change of input variables in Q4-21					Change of the real estate economy Q3-21 / Q4-21	Values of the real estate economy				
	Leading share index	Real estate share index	Indicator of economic sentiment	Basic interest rate	Risk-free interest rate		Q3-21	Oct 21	Nov 21	Q4-21	Delta (%) Q3-21 / Q4-21
Germany	↗	↘	↓	→	→	380	355	355	347	343	-3.2
UK	↗	↗	↓	↗	↗	340	223	227	219	218	-2.0
France	↗	↗	↗	→	↗	300	244	248	250	252	3.3
Netherlands	↗	↗	↓	→	↗	260	203	208	205	202	-0.5
Poland	↘	↘	↗	↗	↗	220	199	200	197	198	-0.5
Spain	→	↗	→	→	↗	180	186	189	186	186	0.0

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