



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

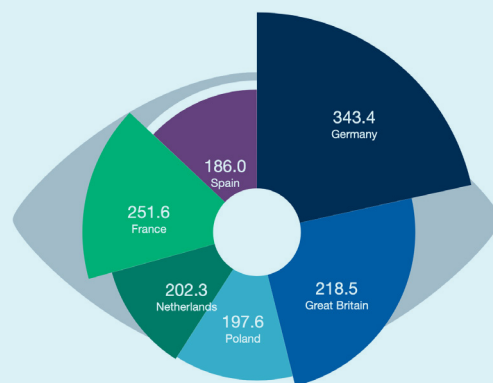
Despite the clear evidence of an overwhelmingly positive trend in the most recent quarterly reports and some significant growth in the European real estate sector (as measured by the Euro Score), the tendency towards the end of the year was rather sobering. Having closed December at 257.9 points, the 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.

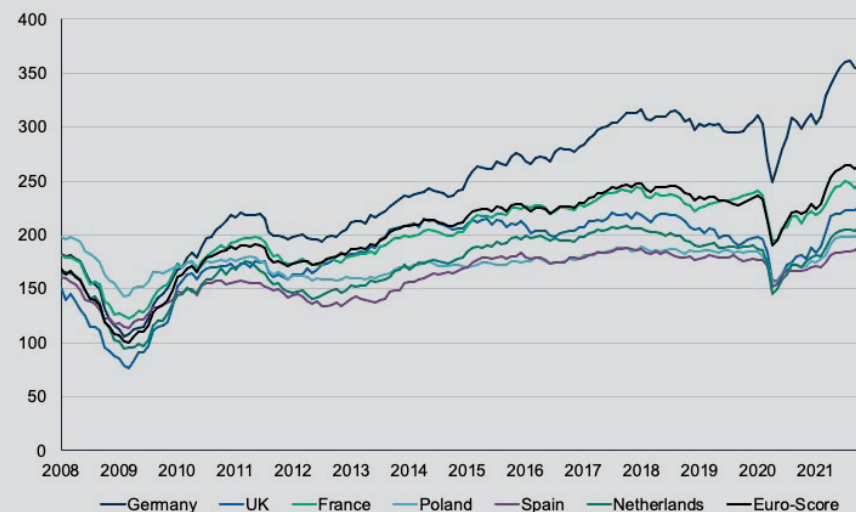
Over the course of 2021 as a whole, however, every country monitored saw an increase without exception. The steepest rises were reported in the United Kingdom (+16.2 %), followed by France (+13.3 %) and the Netherlands (+13.2 %). Both Poland (+12.4 %) and Germany (+10.0 %) also posted double-digit growth 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





REECOX UK ENDS THE YEAR ON A CAUTIOUS NOTE

The United Kingdom's real estate sector, along with Germany's, saw the largest drop of any country in Europe (-2.0 %) at the end of the year. The fourth quarter started with a figure 1.6 % above the high set in September (222.9 points) before heading into negative territory with a 3.5 % decline in November. After merely treading water in December, the REECOX UK stood at 218.5 points at the end of the year. In total, the REECOX value for the United Kingdom gained a stellar 16.2 % in 2021 – the highest growth rate in a European context.

British stock markets continued on their upward trajectory (in place since the end of 2020) in the final quarter of 2021. The FTSE 100, Britain's blue-chip index, rose by 4.2 % quarter on quarter to end December at 7,384.5 points. With impressive gains of 13.2 %, the FTSE EPRA/NAREIT UK real estate share index once again posted the highest growth. At roughly 1,476 points in December, at the end of the quarter, the real estate share index nearly matched the peak last seen in January 2016. However, the business climate, as measured by the European Sentiment Indicator (ESI), saw subdued development. In contrast to the positive development in previous months, the fourth quarter ended with a significant decline of 8.5 %. The months of November (-6.8 %) and December (-3.6 %) in particular contributed to the low level of sentiment.

COMMENT ON THE MARKET

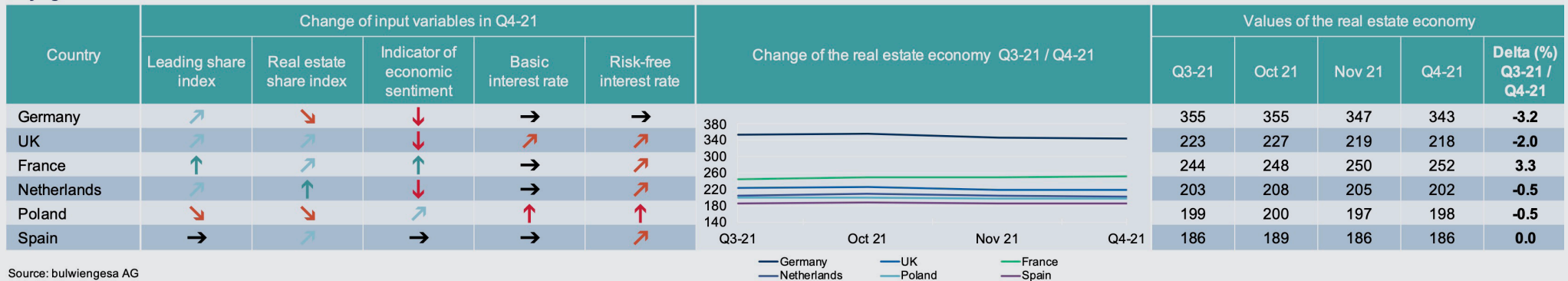


Claudia Nacke,
Head of Real Estate
Finance UK, London
Branch

"Overall, the UK economy has recovered significantly following the pandemic and GDP is expected to have returned to pre-pandemic levels in the fourth quarter of 2021. The restrictions imposed at the end of 2021 are now being lifted again and a certain normality is returning. Inflation remains high at over 5% and markets expect further moderate interest rate rises in the near future. Supply chain issues remain but should hopefully resolve over the course of the year, easing pricing pressures in development tenders. Contrary to expectations and despite the end of the Furlough program unemployment fell to 4.2% in the fourth quarter with concurrent wage growth exceeding 4%. Real estate markets have also performed well and investor sentiment is clearly positive across most sectors. We continue to see yield compression in long-term income across all sectors and in logistics, supermarkets and retail parks, with the latter in particular reflecting increasing tenant activity, rental stability, and a return of foot traffic to pre-pandemic levels. Net income in the PRS sector have also largely returned to pre-pandemic levels and Central London, too, rebounded in the fourth quarter courtesy to an increasing return to the office as well as foreign tenants. In the office sector rents are rising for both new and refurbished properties. ESG is increasingly in focus for investors and tenants alike."

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Key figures of the real estate economies



PUBLICATION DETAILS

Responsible for content:

bulwiengesa AG, Laura Hahn
Hahn@bulwiengesa.de
Nymphenburger Straße 5, 80335 München
Tel.: +49 89 23 23 76-41

Responsible for publication:

Norddeutsche Landesbank – Girozentrale
Deutsche Hypo – NORD/LB Real Estate Finance
Franziska Pöppel
Franziska.Poepfel@deutsche-hypo.de
Osterstraße 31, 30159 Hannover
Tel.: +49 511 3045-552

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