



REECOX

www.reecox.co.uk

DEUTSCHE HYPO
REAL ESTATE ECONOMY INDEX

01-2022



Dear Readers,

After many months of recovery, the Euro Score was forced to take a hit at the end of the past year. The negative trend continued at the start of 2022, with the Euro Score down by a substantial 3.5 % and losses on the books in each country monitored by the REECOX. The war in Ukraine – the further course and impact of which are anyone's guess – played a significant role in the downturn, which comes on the heels of a gradual recovery from the effects of the coronavirus pandemic.

Shortages of materials and labour are also causing problems. The real estate market is feeling the pinch of the related bottlenecks and is having to delay construction projects in some cases. Rising prices are having an additional effect, and close monitoring of inflation (following its sharp rise in recent months) and interest rate policy will remain essential.

Kind regards
Frank Schrader

DEUTSCHE HYPO EURO-SCORE

248.0

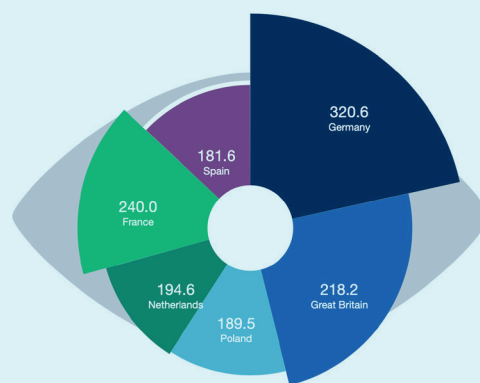
REECOX EURO SCORE STARTS THE YEAR NEGATIVELY

The European Real Estate Economy Index performed positively in 2021 as a whole, largely as a result of the often significant growth in the first three quarters. In the fourth quarter of 2021, however, the index posted a decline – one that continued in the first months of 2022. After initial stability in January, February saw a loss of 1.2 %, which was followed by a drop of 2.3 % in March. Compared to the previous quarter, the index fell by a substantial 3.5 % to stand at 248.0 points.

Negative pan-European development was generally observed in all the countries included in the Deutsche Hypo REECOX. With a decline of 6.0 %, performance in Germany was particularly discouraging. A downward trend was apparent throughout the first three months of the year, leaving the index to finish the quarter at 320.6 points.

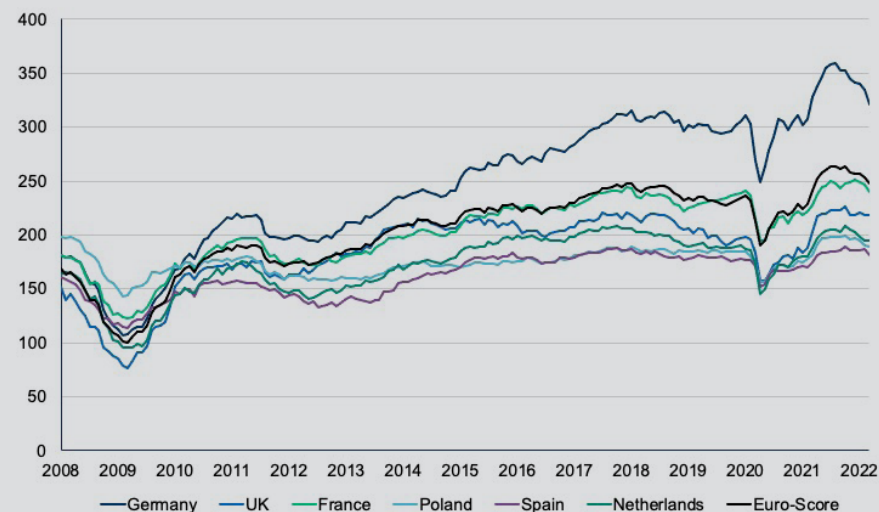
The REECOX France also performed poorly, losing 4.4 % quarter on quarter to stand at 240.0 points. Poland (-3.7 %), the Netherlands (-3.7 %) and Spain (-2.3 %) were in the mid range of the overall negative trend. The REECOX UK was the only index to remain virtually unchanged, ending March at a stagnant 218.2 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 March 2022





REAL ESTATE INDEX STAGNANT IN UK

January 2022 saw a slight upward trend (+1.1 %) following the negative performance of the UK real estate index towards the end of 2021. However, declines rematerialised in February (-1.0 %) and March (-0.2 %), resulting in overall stagnation for the REECOX UK in the first quarter of 2022.

The performance of the input variables was a mixed bag. At 7,515.7 points, the FTSE 100 blue-chip index finished the first quarter with a 1.8 % quarter-on-quarter gain. The business climate, as measured by the Economic Sentiment Indicator (ESI), also contributed to the robust performance of the real estate market in the UK, gaining 3.8 % quarter to quarter to stand at 101.6 points. The FTSE EPRA/NAREIT UK real estate share index, however, took a different path. After posting impressive gains in the fourth quarter of 2021, the start of 2022 saw a downward trend of 3.9 % that was fuelled by negative episodes in January (-6.0 %) and February (-4.5 %). By contrast, March saw a significant increase of 7.0 %.

COMMENT ON THE MARKET



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

“Russia's invasion of Ukraine in February and the subsequent sanctions and disruptions have exposed European and global vulnerabilities. COVID related supply chain issues remain of some concern and closer to home shortages in the UK labour market present additional challenges. High inflation rates and slowing economic growth figures are presenting central banks with a very real risk of stagflation or worse, the Bank of England even warning of recession and double-digit inflation. The UK base rate is now 1 %, its highest level since the Financial Crisis. Against this difficult backdrop, investors are looking for stable longer-term investment opportunities such as UK CRE. Cross-border investors in particular are returning to the market now that travel restrictions have eased. We are seeing increasing activity in the accommodation sectors where a real need for housing is meeting the general investor perception of housing investment providing a level of inflation protection. In the office sector central London and regional cities remain to be popular with yield compression seen in some major regional cities. Quality leads in all areas. Investment volumes in office assets more than doubled year-on-year in Q1 2022 and overall investment transaction volumes in Q1 2022 are also firmly up year-on-year.”

“The UK base rate is now 1 %, its highest level since the Financial Crisis.”

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

Disclaimer: The calculations presented in this publication were prepared by bulwiengesa to the best of their knowledge and with due care. Liability is assumed for material correctness within the scope of standard due diligence.

DEUTSCHE/HYPO

NORD/LB Real Estate Finance

NORD/LB