



REECOX

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DEUTSCHE HYPO
REAL ESTATE ECONOMY INDEX

02-2022



Dear Readers,

The many challenges that exist around the world are reflected in the performance of the Euro Score: the persistent negative trend

remained unbroken in the second quarter – the REECOX fell for the eighth month in a row to end the second quarter at 229.5 points. Whereas a recovery looked likely last year, a number of exceptional events (interest rate hikes/inflation, volatile supply chains, current conflict hotspots, fears of recession in certain parts of the world, living with the pandemic, etc.) are creating significant amounts of uncertainty. The parallel occurrence of these rare events has been unprecedented. The real estate industry has been adversely affected by these factors, as can be seen in the performance of the real estate stock indices, which plummeted dramatically in the second quarter. In some cases, changes in the conditions for financing have led to transactions being put on hold, so the market has not yet been able to establish a price level that unites both buyers and sellers. We can only hope that the summer months will be somewhat calmer and that the second half of the year will usher in a return to stronger transaction activity.

Kind regards
Frank Schrader

DEUTSCHE HYPO EURO-SCORE

229.5

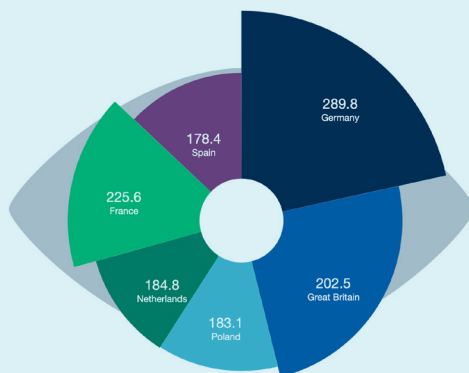
NEGATIVE TREND IN REECOX EURO SCORE CONTINUES

Having commenced a downward trajectory in November 2021, the Deutsche Hypo REECOX European Real Estate Economy Index (Euro Score) continued to post a consistently negative performance in the second quarter of 2022. All in all, the Euro Score declined by 6.0 % quarter on quarter to stand at 229.5 points – the last time it was lower than this was in January 2021.

to 184.8 points) and France (down 5.6 % to 225.6 points). Once again, Germany recorded the largest decrease, with the REECOX falling by 8.7 % to 289.8 points.

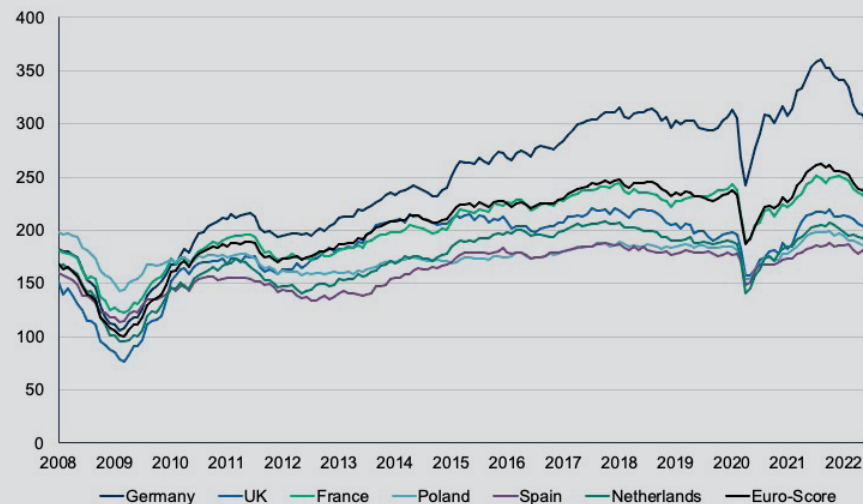
A look at the individual indicators illustrates that the REECOX again performed negatively across all monitored countries in the second quarter. With a comparatively moderate decline of 1.7 %, REECOX Spain recorded the lowest quarter-on-quarter percentage decrease. This is followed at a slight distance by Poland (down 3.6 % to 183.1 points) and the United Kingdom (down 3.9 % to 202.5 points). Virtually identical quarter-on-quarter declines were seen in the Netherlands (down 5.5 %

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 June 2022





REECOX GERMANY UNDERGOES SIGNIFICANT PRICE DROP

The German real estate index has recorded a negative performance for the fourth quarter in a row. REECOX Germany declined by 2.3 % as the second quarter began; this was followed by a more or less unchanged performance in May (-0.5 %) and a substantial drop in June (-6.1 %). This was by far the most pronounced in Germany, with the German real estate index posting the sharpest drop of all the European countries, a decline of 8.7 % to 289.8 points.

Although all market variables contributed to the current trend in the German real estate index, they varied considerably in terms of their impact. The German blue-chip index DAX saw renewed sharp losses: down by 11.3% quarter on quarter, it is now trading at roughly 12,784 points, the lowest it is has been since September 2020. Losses of 11.3 % incurred in June in particular contributed substantially to this trend. The German real estate share index DIMAX recorded even greater losses: a drastic quarter-on-quarter decline of 26.0 % to roughly 596.0 points brought it down to a level not seen since April 2016. The DIMAX fell by a hefty 16.2 % in June alone. The business climate dipped only slightly in the second quarter, thus cushioning the distinctly negative performance of the remaining input variables. Estimates by real estate experts within the scope of the Economic Sentiment Indicator (ESI) amounted to an index value of 105.2 points at the end of the quarter – a relatively moderate decline of 1.7 %.

COMMENT ON THE MARKET



José Luis Calderón Martínez,
Head of Central Acquisition / Head of Berlin Office / Head of Hanover Office

“In light of the challenging conditions – war in Ukraine, inflation, fears of recession, rising interest rates, high construction costs and supply chain issues – the prevailing mood on the real estate markets can still be described as ‘surreally’ good. We see no signs of a downturn at the moment. The logistics sector is currently benefiting most: supply chain issues stemming from the pandemic and the war have underlined the importance of stock-keeping and ushered in an end to just-in-time strategies. In addition, the manageable risks associated with logistics construction projects are a factor in the success of this asset class. There is no sign of a downturn and we expect demand to remain high. The same applies to the residential property market, where current levels of immigration, among other factors, are causing the supply gap to widen further. The situation is difficult in the new housing construction and property development segments, most notably for complex projects: many new construction projects have become unprofitable and are failing to yield any margins as a result of high construction costs and rising interest rates. This means that many of them have been currently put on hold. In light of the resulting tight supply, the key question is: how will yields develop?”

“In light of the challenging conditions, the prevailing mood on the real estate markets is ‘surreally’ good.”

Key figures of the real estate economies

| Country | Change of input variables in Q2-22 | | | | | Change of the real estate economy Q1-22 / Q2-22 | Values of the real estate economy | | | | |
|-------------|------------------------------------|-------------------------|---------------------------------|---------------------|-------------------------|---|-----------------------------------|--------|--------|-------|-------------------------|
| | Leading share index | Real estate share index | Indicator of economic sentiment | Basic interest rate | Risk-free interest rate | | Q1-22 | Apr 22 | May 22 | Q2-22 | Delta (%) Q1-22 / Q2-22 |
| Germany | ↓ | ↓ | ↘ | → | ↑ | 380 | 317 | 310 | 308 | 290 | -8.7 |
| UK | ↘ | ↓ | ↘ | ↑ | ↑ | 340 | 211 | 206 | 203 | 203 | -3.9 |
| France | ↓ | ↓ | ↘ | → | ↑ | 300 | 239 | 235 | 234 | 226 | -5.6 |
| Netherlands | ↓ | ↓ | ↓ | → | ↑ | 260 | 196 | 194 | 192 | 185 | -5.5 |
| Poland | ↓ | ↘ | ↘ | ↑ | ↑ | 220 | 190 | 188 | 185 | 183 | -3.6 |
| Spain | ↘ | ↓ | ↘ | → | ↑ | 180 | 182 | 178 | 181 | 178 | -1.7 |

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