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

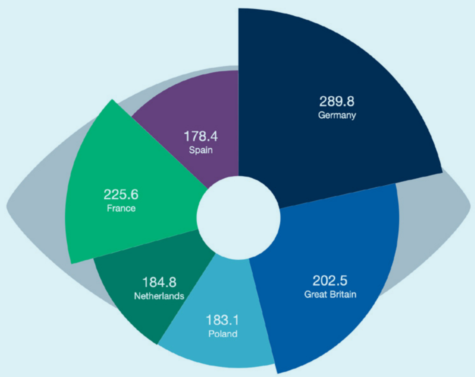
229.5

NEGATIVE TREND IN REECOX EURO SCORE CONTINUES

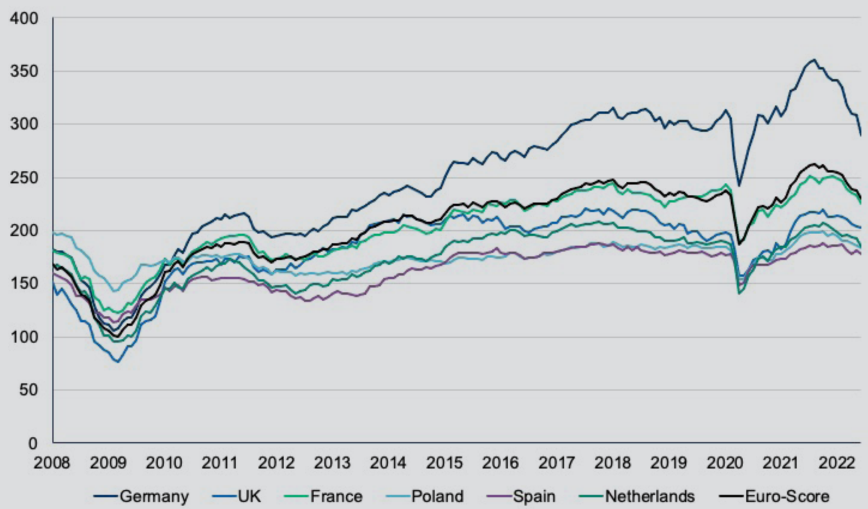
Having commenced a downward trajectory in November 2021, the Deutsche Hypo REECOX European Real Estate Economy Index (Euro Score) continued to post a consistently negative performance in the second quarter of 2022. All in all, the Euro Score declined by 6.0 % quarter on quarter to stand at 229.5 points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

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 % 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.

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).

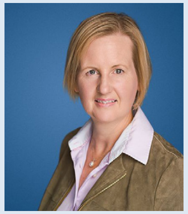


REECOX UK: DOWN 3.9 %

As is the case in almost all of the countries monitored by REECOX, the UK real estate index recorded a consistently negative performance in the second quarter of 2022. These weaknesses were already evident in April (-2.4 %) and in May (-1.1 %). The index stagnated in June (-0.4 %). Overall, the indicator fell 3.9 % quarter on quarter to reach 202.5 points in the second quarter. This places the UK's real estate index within the mid-range of the Deutsche Hypo REECOX.

In the United Kingdom, stock markets reacted to the current geopolitical and economic situation much as they did in the other countries monitored by REECOX. Britain's leading stock market index, the FTSE 100, declined by 4.6 % quarter on quarter to finish June at around 7,169.3 points. June (-5.8 %) was responsible for the decline, following positive performance in April (+0.4 %) and May (+0.8 %). The FTSE EPRA/NAREIT UK real estate share index was even more noticeably affected by the impact, falling by 19.1 % quarter on quarter to stand at 1,147.4 points. Quarter on quarter, business sentiment dipped only slightly, by 2.1 % to 91.8 points. This was due primarily to the increase in June (+4.2 %).

COMMENT ON THE MARKET



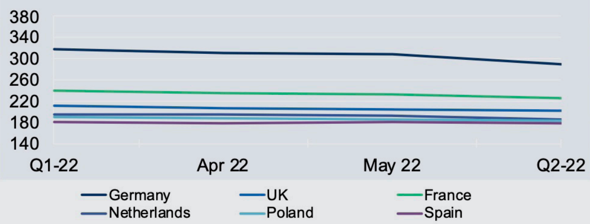
Claudia Nacke,
Head of Real Estate Finance UK, London Branch

"With geopolitical events continuing to fan inflation central banks are applying interest rate increases more and more sharply. The bleak outlook of a period of recession and likely double-digit inflation has prompted the Bank of England's latest rate increase by 0.5% to 1.75%, the highest increase in 27 years. Present Bank of England forecasts see rates peak at 3% next year, however, this does not factor in the outcome of the UK leadership race, with both candidates having quite opposing views on key economic policies. It remains to be seen how the winner will be received by the electorate and in particular business leaders. Against this backdrop of economic and political uncertainty, investors are evaluating their portfolio strategies and individual investment decisions. The overall sentiment, however, appears to remain. Long dated income and offices with strong ESG criteria stay very much in demand. Retail Parks continue to be sought after by UK institutions and Logistics, whilst yields have tempered, also remains a target sector. Residential let stock, as through the pandemic, continues to attract capital from an increasing investor base and is expected to show low capital volatility going forward."

"Long dated income and offices with strong ESG criteria stay very much in demand."

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	↓	↓	↘	→	↑		317	310	308	290	-8.7
UK	↘	↓	↘	↑	↑		211	206	203	203	-3.9
France	↓	↓	↘	→	↑		239	235	234	226	-5.6
Netherlands	↓	↓	↓	→	↑		196	194	192	185	-5.5
Poland	↓	↘	↘	↑	↑		190	188	185	183	-3.6
Spain	↘	↓	↘	→	↑		182	178	181	178	-1.7



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