

## CAPITAL MARKET INDICATORS

**Sterling dips on euro bounce:** Sterling touched a two-week high against the dollar but slid back against the euro on Monday, with the day's main focus likely to be ECB chief Mario Draghi's testimony in the European Parliament. With 10 days until a policy meeting long expected to signal the pace of quantitative easing next year, Draghi's comments have the potential to shift the euro higher after two better days driven in part by suggestions the bank could hold off on any signal of easier policy.

**Dollar, US bond yields drop as oil tumbles on output cut doubts:** The dollar and US bond yields fell on Monday as investors reversed a "Trumpflation" trade that has gripped markets since the US elections, after oil prices slid on fears that producer countries meeting this week could fail to agree an output cut. Prospects of reduced upward pressure on inflation from oil prices, prompted investors to temper expectations for rises in US interest rates, bring down Treasury yields and the dollar.

**Italian lenders slide on vote worries to drag down Europe stocks:** Italian lenders declined on rising concerns about risks to their financial stability from the upcoming referendum, bringing an end to a three-week rally in European shares. The spread between Italian and German government bond yields widened to the most in more than two years. Italy's securities have been the worst performers globally in the past month, according to Bloomberg World Bond Indexes.

**Bond market carnage breeds few bold predictions for rebound:** Bond investors are signalling that they're not quite convinced the worst is over after the most violent rout for Treasuries in 15 years. They pulled \$10.7 billion from US bond funds in the two weeks after Donald Trump's victory, the biggest exodus since 2013's "taper tantrum". The \$13.8 trillion Treasuries market suffered its worst slump since 2001 after Trump's win, stoking worries that a persistent increase in yields could make his spending plans more costly. (Sources: Bloomberg, Reuters, AEW)

INTEREST RATES (%)	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	-0.31	-0.20	-0.15	-0.09	0.09	0.65	1.19
UK SWAP	0.39	0.58	0.66	0.76	0.97	1.37	1.58
US FED FUNDS SWAP	0.60	1.00	1.10	1.19	1.36	1.71	2.07

Source: Macrobond

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	-0.82	-0.72	-0.44	-0.17	0.24	0.63	0.89
UK GILTS	0.08	0.22	0.63	0.96	1.41	1.92	2.03
BANQUE DE FRANCE	-0.65	-0.50	-0.16	0.16	0.78	1.09	1.59
FEDERAL RESERVE	0.80	1.40	1.89	2.17	2.36	2.71	3.02

Source: Macrobond

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	4550	0.62	-7.01	3.70
DAX	10699	4.05	-4.22	2.84
FTSE 100	6841	12.28	7.94	3.80
S & P 500	2213	9.94	5.94	2.12
EPRA DEV. EUROPE	559	-8.66	-13.06	3.70

Source: Macrobond

## NEWS TICKER

**UK economy shows no sign of Brexit effect as spending rises:** Consumers and businesses increased their spending in the third quarter as the UK economy registered a resilient performance following the Brexit vote. Household spending rose 0.7% from Q2 and business investment increased 0.9%. Growth overall was unrevised at 0.5%, with trade providing the strongest contribution. A separate report from the Confederation of British Industry showed retail sales grew at their fastest annual pace in more than a year in November.

**Consumer sentiment in US jumps after Trump election victory:** Consumer confidence rose more than previously reported to a six-month high in November, showing Americans became more optimistic about their finances and the economy after Donald Trump won the presidential election. The lift suggests that Americans were heartened on the whole by Trump's victory over Democrat Hillary Clinton, with broad gains in confidence across incomes, ages and regions.

**Chinese November factory activity likely continued steady expansion:** Activity in China's manufacturing sector likely held onto a modest expansionary trend this month, a Reuters poll showed, as industrial firms continued to benefit from higher producer prices and a recovery in demand. Factory activity in China started to pick up in August, buoyed by a government infrastructure building spree and a housing boom, as well as a loose monetary policy.

**Japan's CPI falls again, extending longest streak since 2011:** Japan's consumer prices fell for an eighth straight month, the longest streak of declines since 2009-2011, underlining how distant the nation is from achieving its 2% inflation target. The continued fall in prices underscores the struggle to break a cycle that's reinforced by weak gains in wages, poor consumer sentiment and retailers who compete fiercely through discounting. (Sources: Bloomberg, Reuters, AEW)

## REAL ESTATE MARKET INDICATORS

**Quarterly INREV index shows drop in UK non-listed property returns:** The UK was the only market to see its non-listed real estate returns decline in performance in the third quarter, according to INREV. Returns in the UK turned from a positive 0.7% in the second quarter to -1% in Q3. European non-listed real estate funds continued to deliver positive returns, although the rate of growth has slowed across most markets.

**Increasing university commerciality will drive further student housing partnerships:** A study by JLL's Higher Education team has charted the rise of student housing partnerships between universities and private sector operators in the UK. It highlights the c27,000 new beds that these partnerships have created in the last 15 years, and the further c16,500 beds transferred from university portfolios. So far these partnerships have attracted £2.4 billion in capital investment and the number of partners has tripled in the last decade.

**Industry expectations for 2016 and 2017 improve:** Industry expectations for returns this year and 2017 have improved moderately while forecasts for 2018 have weakened, according to the final IPF UK Consensus Forecasts report of 2016. The report predicted a total return this year of 0.6% compared with the previous forecast of -0.4%. This is driven by improved expectations for capital values, which are now expected to fall by 4.1% whereas they were previously forecast to fall by 5.3%.

**Real estate investors head to non-core European markets:** Commercial real estate investment volumes in over half of Europe's markets have risen this year, with some non-core markets seeing stronger growth than the core. However, a lack of stock in Germany and Spain, and the uncertainty caused during the EU referendum in the first and second quarters in the UK, led to a drop in volumes in these markets, says Savills. (Sources: JLL, IPE Real Estate, Property Week, Property Magazine, AEW)

## SELECTED OFFICE MARKETS

**Bristol office take-up at strongest level since 2007:** Take-up of Bristol offices has reached 515,699 sq ft in the first three quarters, the highest level since 2007, according to Savills. The firm predicts that take-up in the city will reach 800,000 sq ft by end-2016, 50% above the five year average. TMT and energy firms have been the most active business sectors in Bristol. Savills expects to see energy firms continue their activity in the city following the approval of Hinkley Point in September, with a prime example being OVO Energy who took 23,000 sq ft in one of the biggest deals of the quarter. (Sources: Savills, AEW)

SELECTED OFFICE MARKETS (Q2 2016 DATA)					
	VACANCY RATE (%)		PRIME RENTS (€/SQM/YR)	PRIME NET YIELDS (%)	Q2 2016 TAKE-UP (SQM)
PARIS (CENTRAL)	7.9	↓	743	↑	3.54 ↓ 347,000
LONDON (CENTRAL)	7.4	↑	1,601	→	3.49 → 147,000
BERLIN	4.7	↓	306	↑	3.75 ↓ 170,000
WARSAW	16.3	↑	252	→	5.10 → 121,000
MILAN	15.4	↓	460	→	4.29 ↓ 81,000

Source: PMA, AEW

## SELECTED RETAIL MARKETS

**European shopping centre development to accelerate in 2017:** A total of 87.2m sq ft of new shopping centre space will be added across Europe in H2 2016 and throughout 2017 with operators seeking to add more entertainment elements, according to research from Cushman & Wakefield. Having delivered the most floor space in western Europe in H1 2016, France dominates the pipeline with 8.6m sq ft of shopping centre space set to be delivered by the end of 2017, 1.5m sq ft of which will be in the Greater Paris region. (Sources: Proerty Week, AEW)

SELECTED RETAIL MARKETS (Q2 2016 DATA)					
	HOUSEHOLD CONSUMPTION 2014 (%YOY)	HOUSEHOLD CONSUMPTION 2015 (%YOY)	AVERAGE PRIME RENTS Q2 2016 (€/SQM/YR)*	AVERAGE PRIME YIELDS Q2 2016 (%)*	CONSENSUS ANNUAL INFLATION 2016E (%)
FRANCE	0.6	1.4	2,882	→	4.00 → 0.3
GERMANY	0.9	1.9	3,564	↑	3.63 → 0.5
UK	2.6	2.8	3,831	↑	4.00 → 0.7
ITALY	0.6	0.9	3,350	→	3.20 → 0.1
SPAIN	1.2	3.1	2,640	→	3.50 ↓ -0.2

Source: PMA, Consensus Forecasts, AEW \* Average rent and prime yields of the countries' cities