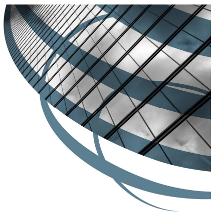
AEW

Shan Shan Qi: +44 207 016 4853
Email: researchaew@aeweurope.com

Research & Strategy
European Real Estate Weekly Monitoring Page

2016/12/05
www.aew.com



CAPITAL MARKET INDICATORS

Euro jumps as investors bet on Italian polotical limbo: European stocks and the euro rose on Monday, battling back as investors bet that Prime Minister Matteo Renzi's resignation after voters rejected his constitutional reforms would not trigger a snap election in Italy. But there was no relief for Italian bonds or banks, which bore the brunt of investor fears that a fresh bout of political turmoil in the Eurozone's third largest economy could undermine Italy's shaky banking system.

Global bonds suffer worst monthly meltdown as $1.7 trillion lost: The Bloomberg Barclays Global Aggregate Total Return Index lost 4% in November, the deepest slump since the gauge's inception in 1990. Inflationary expectations are climbing and there are hints global central banks may buy less sovereign debt going forward. November's rout wiped a record $1.7 trillion from the global index's value in a month that saw world equity markets' capitalisation climb $635 billion.

Sterling hits two month high vs. dollar: Sterling briefly hit its strongest in two months against the dollar on Monday, extending one of the currency world's best performances over the past month as it rode out volatility around Italy's constitutional referendum. Dealers said most of the action had centred on volatile moves in the euro following the Italian vote, with importers tempted to buy euros they need to purchase goods from European producers as the single currency sank overnight.

Referendum defeat a new blow to Italy rating prospects: Ratings agency DBRS said on Monday that Italian Prime Minister Matteo Renzi's imminent resignation after a crushing referendum defeat was negative for the country's credit ranking, which is under threat of a downgrade. DBRS' A (low) rating on Italy is important for its beleaguered banks, because a downgrade would mean they would pay more for European Central Bank funding. (Sources: Bloomberg, Reuters, AEW)

Interest rates (%)	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
Euro Swap	-0.31	-0.20	-0.16	-0.10	0.09	0.69	1.23
UK Swap	0.38	0.57	0.64	0.74	0.93	1.32	1.54
US FED Funds Swap	0.62	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	-0.83	-0.67	-0.42	-0.13	0.28	0.70	0.95
UK Gilts	0.08	0.18	0.57	0.92	1.38	1.88	1.98
Banque de France	-0.68	-0.52	-0.20	0.16	0.72	1.11	1.56
Federal Reserve	0.82	1.45	1.89	2.25	2.45	2.82	3.10

Source: Macrobond

Equity markets	Current	% change YTD	% change 52 wk	% div yields
CAC 40	4529	0.15	-7.68	3.66
DAX	10513	2.24	-6.05	2.84
FTSE 100	6731	10.47	4.83	3.86
S & P 500	2192	8.89	5.38	2.09
EPRA Dev. Europe	552	-9.80	-14.81	3.76

Source: Macrobond

NEWS TICKER

Chinese November data to show steady growth, but yuan, capital controls a worry: A flood of data from China in coming weeks is expected to show the economy continued to grow at a steady pace in November, with inflation quickening and credit expanding at a faster pace despite concerns about rising debt, a Reuters poll showed. However, concerns about the impact of tighter capital controls are also growing as China closes off more channels for cash to leave the country after the yuan slid to more than eight year lows.

UK services pickup keeps economy on track to maintain momentum: The UK services sector grew at the fastest pace in 10 months in November, keeping the economy on track to maintain its pace of expansion this quarter. While the economy is expanding at a solid pace, confidence among services firms fell to the lowest since July last month. Respondents linked the weaker sentiment to political uncertainty surrounding the UK's decision to leave the EU as well as growing inflation pressures.

Eurozone unemployment at seven year low as recovery proceeds: Eurozone unemployment unexpectedly declined in October to the lowest level in more than seven years, signalling that companies are confident in the region's slow but steady recovery. The faster-than-anticipated decline in unemployment comes as ECB officials urge governments to step up efforts to encourage job creation and strengthen economic resilience in the region.

US Manufacturing expands at best pace in five months: Manufacturing in the US expanded in November at the fastest pace in five months, indicating American producers are finding more relief in resilient domestic demand. At the same time, while a recovery in business investment could help brighten prospects for producers, the industry may be held back by recent US dollar appreciation that threatens to slow demand in export markets. (Sources: Bloomberg, Reuters, AEW)

REAL ESTATE MARKET INDICATORS

UK warehouse market struggles to keep up with insatiable demand from online retailers: According to Savills, the UK warehouse market is set to have its best year since records began, with take-up surpassing the 34m sq ft transacted in 2014. This significant increase can largely be attributed to the continued growth of online retailers. Savills research shows that online retailers now account for up to a third of the market, more than any other occupier segment ever.

London ranked number one in CBRE's European tech cities report: London has been ranked as the leading destination in Europe for technology-based industries, followed by Paris in second, Berlin in third place and Munich and Madrid completing the top five, according to CBRE's Understanding European Technology Clusters report. The report also identifies the fastest growing, emerging European tech cities of the future as Budapest, Bucharest and Istanbul.

European property stocks extend losses in November: European listed property, as represented in the GPR 250 Europe Index, closed 1.3% lower in November, extending the losses booked in October. The UK and Switzerland were the only markets to post gains, at 4.4% and 0.8% respectively. The biggest decliners were Spain (-4.9%) and France (-4.7%). Africa was the weakest performing region while Asia and Oceania were the strongest, according to GPR.

Investors look to regions in Brexit Britain: The UK regions will be more interesting places for investors to deploy their money, according to BNP Paribas Real Estate. In places like Birmingham there is a lot going on and a positive feeling that things are getting better. Outside of London there has not been much development in major cities so far, and people see a buying opportunity not just because of the weak pound but also because 'they see value and a transparent, well-regulated market. (Sources: Savills, PropertyEU, CBRE, AEW)

SELECTED OFFICE MARKETS

Increasing development activity in the Budapest office market: During the third quarter, three new office buildings of 39,570 sq m were completed in the Budapest office market, according to JLL. The increasing development activity has had an impact on availability as well, with the vacancy rate increasing slightly to 10.9%. The intensifying development pipeline is also reflected in the future supply of the upcoming two years, with a further 240,000 sq m of new office space due to come to the market during 2017 and 2018. (Sources: Property Magazine, AEW)

Selected office markets (Q3 2016 data)	Vacancy rate (%)		Prime rents (€/sqm/yr)		Prime net yields (%)		Q3 2016 take-up (sq m)
Paris (central)	7.6	↓	750	↑	3.45	↓	265,000
London (central)	7.9	↑	1,601	→	3.74	↑	134,000
Berlin	4.3	↓	318	↑	3.45	↓	246,000
Warsaw	15.5	↑	252	→	5.10	→	102,000
Milan	15.4	→	460	→	4.07	↓	39,000

Source: PMA, AEW

SELECTED RETAIL MARKETS

Wave of new entrants to London prove capital's continued draw to international brands: Over 75 new retail entrants have been drawn to London in 2016, with the prime streets in Mayfair and Chelsea proving to be a magnet for luxury brands, according to CBRE. Two thirds of these new entrants were European, with 16 from the UK, 11 from France and nine from Italy. The trend supports the reputation of London's retail property as a safe haven for investors and 2016 is set to be a record year for London retail, with investors expecting to acquire more than £2 billion worth by the end of December. (Sources: CBRE, AEW)

Selected retail markets (Q3 2016 data)	Household consumption 2014 (%yoy)	Household consumption 2015 (%yoy)	Average prime rents Q3 2016 (€/sqm/yr)*		Average prime yields Q3 2016 (%)*		Consensus annual inflation 2016e (%)
France	0.6	1.4	2,882	→	4.00	→	0.3
Germany	0.9	1.9	3,564	→	3.51	↓	0.5
UK	2.6	2.8	3,831	→	4.00	→	0.7
Italy	0.6	0.9	3,400	↑	3.20	→	0.1
Spain	1.2	3.1	2,730	↑	3.36	↓	-0.2

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