AEW EUROPE

Research & Strategy

European Real Estate Weekly Monitoring Page

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This Weekly Market Update is sent every Monday to AEW Europe clients.
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CAPITAL MARKET INDICATORS

European shares bounced back on Monday: Banks regained some ground lost in the previous two sessions and miners tracked firmer metals, but investors stayed cautious due to persistent worries over Greece's debt woes.

It was a bumpy week for European bond markets: The yield on Greece's 10-year bonds fell to 6.02% on February 10th, and the spread between those bonds and benchmark German bunds narrowed to 282 basis points, the lowest since January 19th, as hints from the European Union suggested that aid might be forthcoming if the Greek government stuck to plans to cut its budget deficit from 12.7% of GDP.

Euro hit by disappointing Eurozone GDP figures: European economic growth slowed to a snail's pace in the final quarter of last year, raising fears that the region could experience a double dip recession and sending the euro to its lowest level against the dollar in nine months. Eurozone gross domestic product rose just 0.1pc in the three months to the end of December after growth in Germany, its leading economy, stalled. The weak performance followed an increase in Eurozone GDP in the third quarter last year of 0.4pc and raised the prospect that the region could fall back into recession if hard-hit economies including Greece, Spain and Italy continue to falter. (Sources: Bloomberg, LSR, FT, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0.32	0.66	1.15	1.54	1.93	2.53	3.41	3.79
UK SWAP	0.52	0.64	0.96	0.96	2.24	3.08	3.96	4.17
US FED FUNDS SWAP	0.13	0.25	0.53	1.12	1.73	2.67	3.79	4.51

Source: Bloomberg * EONIA. BBA Libor GBP Overnight. FDFD

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0.51	1.50	2.23	2.72	3.21	3.62	3.94
UK GILTS	0.74	2.08	2.99	3.68	4.07	4.54	4.59

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3631	-7.75	21.13	3.94
DOW JONES	10099	-3.15	28.64	2.70
FTSE 100	5183	-4.25	23.70	3.63
EPRA EUROPE	1205	-4.13	32.04	4.54

Source: Bloomberg

NEWS TICKER

European Finance ministers face pressure over Greece: European Finance Ministers are under pressure from investors to spell out the concrete measures they will take to **rescue** Greece, as new evidence emerged that the country may have turned to U.S. banks to help mask the size of its debt. European leaders made pledges of support for Greece last week that stopped short of committing public funds, and investors are looking for greater detail from the finance minister's meeting, taking place today. Even as the **risk premium** on Greek debt feel last week on the prospect of European support, the euro weakened on concerns about the euro region's stability.

China's Economy may top 11% as officials rein in lending: China may expand at a faster pace in 2010 even as officials cool lending to restrain inflation and avert asset bubbles. Goldman Sachs Group Inc. maintained its **forecast** for 11.4 percent growth after the central bank raised reserve requirements for lenders on Feb. 12. That compares with ab 8.7 percent expansion last year. Declines in **stocks** and commodities because of the reserve ratio announcement highlighted concern **that monetary** tightening in China may trigger a slowdown that undermines the global recovery.

America's monthly trade deficit rose to $40.2 billion in December from $36.4 billion a month earlier. Imports rose by 4.8%, faster than exports, which grew by 3.3%. (Sources: The Economist, Bloomberg, AEW Europe)

REAL ESTATE MARKET INDICATORS

The latest Global Commercial Property Survey from RICS confirms that **an investment led property recovery has spread to a wider number of real estate markets.** In Western Europe, investment bidders per property turned positive across most markets with the exception of Italy, Cyprus and Switzerland. Yields fell at a faster pace in the UK and France although are generally stable or rising elsewhere in Western Europe. Whilst investment bidders rose across some parts of Eastern Europe easy money has yet to impact on Bulgaria, Hungary, Romania and Turkey where investor transactions continue to fall.

According to JLL, in Europe, the **gradual return of the CMBS market in 2009** was evident in three major CMBS transactions done by Tesco Property Finance and Land Securities. The challenge is that while further CMBS issuances are anticipated this year, they are expected to be at a low level. Although banks are being encouraged by government schemes to participate further in the market, there will be limited reliance on CMBS to spread the risk. Those that do occur will be uncomplicated "vanilla" deals characterized by low risk, high regulation and low leverage. Existing bondholders across Europe continue to be nervous about the CMBS market because, in many cases, their exposures and outcomes of refinancing/extensions remain unclear and because the need to unravel exposures is likely to prove complex and time consuming. Banks in 2010 will be looking primarily to repair their balance sheets rather than originating new loans. Given these circumstances, 2010 will likely only represent the beginning of the rejuvenation process for the European CMBS market.

SELECTED OFFICE MARKETS

Take-up activity regained momentum in Q4 2009. According to BNP Paribas Real Estate, in almost all European markets, take-up activity regained momentum in Q4 2009 reaching levels unseen since Q3 2008. This trend inversion can be explained by large deals that fuelled a market which had registered low levels during first three quarters of 2009. In some cities, take-up in Q4 represented between 50% and 66% of the annual total. Companies are looking to reduce their costs and are taking advantage of a contracting market in order to secure office space in good quality buildings. As a consequence, relocations where the main driving force of demand and leasing activity in the last quarter of 2009.

All over Europe, prime rents remained more or less stable in the Central Business Districts. In the City of London, prime rents started to increase again thanks to a strong letting activity. Still, for the third quarter in a row, CBD average rents are lower in Central London than in Central Paris.

SELECTED OFFICE MARKETS (Q4/2009 DATA)

	VACANCY RATE (%)		PRIME RENT (€/SQM/YR)		PRIME NET YIELDS (%)		BUSINESS CONFIDENCE
PARIS (CBD)	6.3	↑	664	↑	5.50	↓	↑
LONDON (CENTRAL)	10.3	↓	778	→	5.39	↓	↑
COLOGNE	11.7	↑	240	↓	5.60	→	↑
PRAGUE	13.7	↑	228	→	6.59	↑	N.A.
MADRID	9.3*	↑	336	→	5.67	↓	↓

*Q3/2009 Source: PMA, CBRE, AEW Europe

SELECTED RETAIL MARKETS

Retailing in France: trends continuing mediocre. According to provisional data issued by Banque de France, after a good month of December, non-food retailing had a hard time in January, with sales down in all segments (DIY -6.9%, electrical domestic appliances -5.5%, electronics -9.2%, furniture -1.8%, mail order -8.5%, textiles +5.2%, shoes -4.1%). Furniture put up the strongest resistance to the decline, while DIY and mail order were disappointing. In addition to unfavourable comparison bases and calendar effects, the bad weather probably put a damper on consumers' enthusiasm, after good sales over Christmas. For February, the bases should be more favourable, but partly due to an unfavourable calendar effect in February 2009 (28 days vs. 29 in February 2008). At this stage, therefore, there is no guarantee of a rebound. (Source: Natixis Securities)

SELECTED RETAIL MARKETS

	HOUSEHOLD CONSUMPTION 2009E (%YOY)		HOUSEHOLD CONSUMPTION 2010E (%YOY)	AVERAGE PRIME RENTS (€/SQM/YR)**		AVERAGE PRIME YIELDS 2009E (%)		CONSENSUS ANNUAL INFLATION 2009E (%)
FRANCE	0.7	↑	0.9	2628	↓	5.8	↑	0.1
GERMANY	0.5*	↑	-0.1*	2856	↑	4.4	→	0.4
ITALY	-1.7	↓	0.6	2122	→	5.2	↑	0.8
SPAIN	-5.1	↓	-0.8	2183	→	5.7	↑	-0.3

Source : PMA, Consensus Forecasts, AEW Europe * Private Consumption ** Average rent of the countries' cities