

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

Please contact the Research & Strategy Department at +33 1 78 40 92 61 or research@aeweurope.com for subscription information.

## CAPITAL MARKET INDICATORS

**Fed's success in spite of itself may cause trouble:** The Fed – according to itself – is engaged in 'credit easing', not quantitative easing. From a credit point of view, its policy is failing, as last week's consumer credit data confirm. But from a monetary point of view, the Fed is successful. The danger is that by looking at the wrong indicator, the Fed will mistime the withdrawal of the monetary stimulus.

**Lagging US jobs indicators not yet bullish - Jobs data look neutral for stock prices:** The slower rate of job losses still correspond to a significant rate of recession, though productivity growth (and therefore labour shedding) has been stronger than normal in this recession. Unemployment is only down because of discouraged workers leaving the 'labour force', and could easily rise through 10% over the next year, with negligible to negative job creation until mid-2010.

**Buoyant German trade data mask Eurozone weakness - Euro needs to fall:** German exports jumped by 7% in June. But other German and Eurozone data was less buoyant. German industrial production fell in June and in Q2, adding to a picture of an economy dependent on foreign markets. Meanwhile, French foreign trade deteriorated and Italian GDP contracted by 0.5% in Q2.

**Trichet puts his faith in rising commodity prices - Eurozone market rates to come down again:** Once again, the ECB's post-meeting press conference was a damp squib. M. Trichet said that the pace of contraction is slowing – the ECB may revise its growth forecasts up in September – and reiterated that the Bank expects deflation to reverse back into inflation later this year. On this, economists from LSR strongly disagree. (Source: LSR, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0,34	0,88	1,36	2,00	2,44	2,98	3,64	4,01
UK SWAP	0,54	0,85	1,19	1,19	2,97	3,69	4,22	4,26
US FED FUNDS SWAP	0,17	0,46	0,91	1,72	2,39	3,26	4,16	4,56

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0,76	1,92	2,67	3,13	3,49	3,91	4,11
UK GILTS	0,54	2,18	2,99	3,34	3,79	4,18	4,29

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3494	8,59	-22,20	4,24
DOW JONES	9353	6,57	-20,30	3,05
FTSE 100	4714	6,32	-14,11	4,28
EPRA EUROPE	1146	17,53	-29,49	5,69

Source: Bloomberg

## NEWS TICKER

**In America, GDP fell at an annualised rate of 1% in the second quarter, which was less than forecasters had expected.** The first-quarter rate of decline was revised from 5.5% to 6.4%. The value of personal consumption rose by 0.4% in June, though all and more of the increase was accounted for by rising prices. Personal incomes fell by 1.3% from May, when they had been boosted by the government's fiscal stimulus.

**Uptrend Continues in US Pending Home Sales:** According to the NAR (National Association of Realtors) in the USA, pending home sales are up for the fifth consecutive month. Pending existing house sales signed in June, rose 3.6% to 94.6 from an upwardly revised reading of 91.3 in May, and are 6.7% above June 2008 when they were 88.7.

**Industrial output in Britain rose by 0.5%** in June, helped by a jump in car production.

**Consumer prices in the euro area fell by 0.6%** in the year to July, according to a preliminary estimate. The unemployment rate edged up to 9.4% in June. Retail sales in the euro area fell by 0.2% in June, to a level 2.4% lower than a year before. (Source: The Economist, AEW Europe)

## REAL ESTATE MARKET INDICATORS

**Investment opportunities expected to emerge in Europe's large, mature property markets:** According to the latest research report produced by Invista Real Estate Investment Management, property values are expected to fall at a slower rate as the emphasis shifts from a capital to a leasing correction and parts of the European economy start to stabilize. The first six months of 2009 saw confirmation of the weakest economic conditions across the Eurozone since its inception.

**Hypo Real Estate (HRE) €1.13bn lost in first half of year:** HRE concluded the first half of 2009 with a net loss of €1.13bn. The firm reported that its pre-tax earnings amounted to €-1.07bn. In the first half of 2008, the company recorded post-tax earnings totaling €160mn and pre-tax earnings amounting to €207mn. Significant impairments, seen primarily in relation to property financing, were given as a reason for the negative figures. The costs for liquidity support were also said to have had a detrimental effect on earnings.

**Immofinanz pre-tax loss of €3.4bn in fiscal 2008-09:** According to preliminary figures, the Austrian Immofinanz AG closed its fiscal year, which ended on April 30, with a loss of €3.4bn in earnings before taxes. During the year before, there had still been a profit of €555.3mn. The financial result was booked at €-1.3bn (previous year: €+40.8mn). Moreover, a devaluation of approximately €1.3bn for the existing portfolio had to be conducted.

## SELECTED OFFICE MARKETS

**Rising vacancy puts downward pressure on Europe's office rents:** According to Jones Lang LaSalle's Q2/2009 European Office Clock Report prime office rents declined by 4.6% over the quarter, and now stand on average 15.4% lower than Q2 2008. The Index, which is based on 24 markets, shows that Moscow witnessed headline rental falls of 30%, followed by Dublin (-18%) and Madrid (-10%) over the quarter.

## SELECTED RESIDENTIAL MARKETS

**Stagnation in UK's outstanding mortgage loans.** The latest figures from the Bank of England show 47,584 loans approved for house purchase in June, up from 44,169 in May, and the highest level since April 2008. But this is still very low on any historic comparison and there were 36% fewer house purchase approvals in the first half of 2009 than the same period of 2008. The UK's outstanding mortgage book is effectively stagnating at the moment with the adjusted net lending total of £343 million in June almost unchanged from May (£331 million), which was the lowest adjusted monthly figure on record. (Source CML: Council of Mortgage Lenders).

**RICS -Outlook improving but UK housing market not out of the woods yet:** House prices look set to end the year higher than they started, but will still face significant challenges during 2010, says the RICS housing market update. Following a considerable shift in sentiment in the housing market over the past few months (which has seen prices starting to pick-up in some areas), RICS no longer expects house prices to fall by 10% in 2009, as predicted at the start of the year. Instead, it now looks likely that the average house price in Q4/2009 could be slightly higher than in Q4/2008.

SELECTED OFFICE MARKETS (Q2/2009 DATA)				
	VACANCY RATE (%)	PRIME RENT (€/SQM/YR)	PRIME NET YIELDS (%)	BUSINESS CONFIDENCE
PARIS (CBD)	5.0 ↑	644 ↓	6.20 →	↑
LONDON (CENTRAL)	11.5 ↑	832 ↓	6.39 →	↑
DUSSELDORF	10.0 ↑	402 ↓	5.50 →	↑
WARSAW	13.4* ↑	186 →	6.79 ↑	↑
MADRID	9.5* ↑	489 ↓	5.51 →	↑

\*Q1/2009 Source: PMA, CBRE, AEW Europe

SELECTED RESIDENTIAL MARKETS				
APARTMENT PRICES IN PARIS (Q1/2009)			RENT INDEXATION IN FRANCE (Q1/2009)	
AVERAGE PRICE (€/SQM)	QUARTERLY CHANGE (%)	YOY CHANGE (%)	RESIDENTIAL PROPERTY INDEX IRL (YOY%) (Q2/2009)	COMMERCIAL PROPERTY INDEX ICC (YOY%)
6,360	-2.1	-1.0	1.31	0.40

Sources: Chambre des Notaires de Paris, INSEE, AEW Europe