

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

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## CAPITAL MARKET INDICATORS

**IMF chief says global recovery stronger than expected:** The head of the IMF said China and other developing Asian economies are leading a global recovery that is faster and stronger than expected, but warned that money rushing into emerging markets could lead to asset bubbles. Dominique Strauss-Kahn, the managing director of the International Monetary Fund, strongly suggested Monday that the IMF would raise its 2010 global growth forecast from the 3.1% it projected in October. China, India and other emerging Asian economies were close to returning to their pre-crisis growth rates, while rebounds in the U.S., Japan and other advanced economies remained "sluggish," he said. While the IMF doesn't forecast a "double-dip," or second recession, risks remain, he said. "We have to very cautious because this recovery remains very fragile." While hundreds of billions in stimulus spending by governments around the world avoided another Great Depression, he said, the most important risk facing the global economy is deciding how and when to reverse those policies and deal with resulting debt burdens. (Sources: Forbes, Bloomberg, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0,32	0,68	1,20	1,64	2,05	2,63	3,45	3,88
UK SWAP	0,51	0,61	0,90	0,90	2,43	3,20	3,97	4,16
US FED FUNDS SWAP	0,12	0,25	0,49	1,13	1,74	2,71	3,78	4,48

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0,61	1,69	2,36	2,82	3,25	3,69	4,02
UK GILTS	0,71	1,74	2,78	3,38	3,93	4,34	4,38

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3976	1,02	31,81	3,57
DOW JONES	10610	1,74	28,12	2,58
FTSE 100	5495	1,51	32,50	3,39
EPRA EUROPE	1266	0,76	34,65	4,18

Source: Bloomberg

## NEWS TICKER

**The unemployment rate in America was unchanged in December, at 10%.** Firms, excluding farms, cut 85,000 workers from their payrolls, dashing hopes that job losses had come to an end. Revised figures showed that firms had added 4,000 workers in November, the first increase in almost two years. The stock of consumer credit, which includes credit-card debt and bank overdrafts, shrank for a tenth consecutive month in December, by a record \$17.5 billion.

**The euro area's unemployment rate rose to 10% in November, up from 8% a year earlier.** Based on the harmonised figures computed by Eurostat, the rate in Germany, the currency zone's largest country, was unchanged, at 7.6%. Jobless rates in the three next-largest countries all moved up a notch: from 9.9% to 10% in France; from 8.2% to 8.3% in Italy; and from 19.3% to 19.4% in Spain. The rate in Ireland, which had shown signs of stabilising, jumped from 12.5% to 12.9%.

**Industrial production in Britain rose by 0.4% in November,** largely because of a surge in the output of oil and gas firms.

**China's central bank unexpectedly increased the ratio of deposits it requires banks to hold with it, by 0.5 percentage points.** The new restriction, which takes effect on January 18th, came amid expressions of concern by government officials that parts of China's housing market looked frothy. (Sources: The Economist, Bloomberg, AEW Europe)

## REAL ESTATE MARKET INDICATORS

**Prime yields under downward pressure across Europe:** Widespread falls in prime yields were seen across the main European real estate markets in the final quarter of 2009, according to the latest data from CB Richard Ellis. Almost none of the locations covered by CBRE's European yield index saw upward movement in any sector in the fourth quarter, and the incidence of downward movement is spreading. These features were particularly marked in the office sector, in which nearly half of the monitored locations saw yields fall, and the downward movement in the yield index as a whole was more than twice that recorded in the previous quarter. **German residential portfolio transactions in excess of €3 billion in 2009:** Savills reports that the German market for residential portfolios picked up in 2009, in particular the second half of the year saw residential portfolios actively transacted compared to H2 2008. 107 residential portfolios comprising a total of some 56,000 residential units changed hands last year.

**IPD: Record monthly capital growth lifts returns positive:** The final month of last year delivered the largest monthly capital growth in IPD's 23-year history, at 3.0%, according to December's IPD UK Monthly Index. The figure beats the 2.9% delivered exactly 16 years earlier in December 1993, at the end of the last major property recession.

## SELECTED RETAIL MARKETS

**Investor interest in U.K. malls rises:** There was 42% more U.K. shopping centre investment activity in 2009 than 2008, according to Cushman & Wakefield. The growth was the result of a fourth-quarter activity spike that saw eight shopping centre transactions totalling approximately £810 million. Investor sentiment, which improved significantly during the third quarter, remained strong at year's end.

**Metro overtakes Tesco as world's No. 3 retailer:** A report on global retailing showed that the largest retailers all increased their sales in 2009, although many sacrificed margins to keep consumers spending. Britain's Tesco and Germany's Metro have swapped spots. "Many retailers 'bought' sales with heavy promotions which hit the bottom line hard, according to Deloitte. "However, we are already seeing evidence that as economic recovery takes hold around the world, retailers should be able to return to a path of improving profitability".

**Retailers keep inventories low:** Retail businesses across Europe are keeping their stock levels low in anticipation of a lingering recession, according to business leaders, said PA Consulting.

## SELECTED LOGISTICS MARKETS

**More consolidation ahead for logistics companies according to Transport Intelligence.** The contract logistics segment has not consolidated in quite the way many expected but the past 10 years saw the emergence of a caste of global providers distinctly larger and more sophisticated than the herd. Whilst contract logistics is not in the grave state of container shipping, it, too, is likely to see changes over the coming years to its competitive landscape as new entrants exploit new markets better than existing giants. Consequently, it is a safe prediction for 2010 that there will be extensive restructuring and bankruptcy amongst logistics companies, with markets continuing to undergo profound change. Indeed, this change will be at least as great as that seen over the past decade.

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	0.6 ↑	0.6	2628 ↓	5.8 ↑	0.1
GERMANY	0.6* ↑	-0.1*	2764 ↓	4.7 ↑	0.3
ITALY	-2.0 ↓	0.2	1998 ↓	5.2 ↑	0.8
SPAIN	-4.7 ↓	-0.8	2182 ↓	5.7 ↑	-0.1

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

SELECTED LOGISTIC MARKETS (2009E)	PRIME RENTS (€/SQM/YR)	ANNUAL TREND	YIELDS (%)	ANNUAL TREND	2009E TOTAL RETURN (%)	ANNUAL TREND
PARIS	53	↓	8.3	↑↑	-9.7	↑
HAMBURG	65	↓	7.5	↑↑	-3.3	↑
WARSAW	58	↓	8.4	↑↑	-14.7	↓↓
MILAN	57	↓	7.6	↑↑	-14.3	↓↓

Source : PMA, AEW Europe