AEW EUROPE

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

Bearish mood prevails among investors: New month, same concerns. Asian equities dropped to their lowest in three months and European bourses recorded further declines, as investors continued to see strong Chinese data as a reason for caution and traders steeled themselves for another week rich with political, policy and economic catalysts. Wall Street's slide on Friday to its lowest level since early November – in spite of stronger-than expected US GDP data – has left the mood distinctly bearish. Where before investors greeted signs of growth with relief, they now fear it could presage monetary constriction.

China's inflation rate may accelerate to as high as 8% this year, hurting banking, utility and phone stocks, according to BNP Paribas. China's central bank last week unexpectedly raised the proportion of deposits that banks must set aside as a credit boom threatens to stoke inflation and create asset bubbles. The nation's consumer price index will rise 1.4% in December, according to economists surveyed by Bloomberg, following a 0.6% increase in November. China's CPI will likely rise 3 to 3.5% this year, according to State Council Development Research Center. Inflation will likely accelerate to more than 5% before the middle of the year and may reach 8% in the second half. (Sources: Bloomberg, LSR, FT, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0.33	0.67	1.21	1.67	2.05	2.61	3.41	3.81
UK SWAP	0.51	0.62	0.89	0.89	2.33	3.11	3.92	4.10
US FED FUNDS SWAP	0.15	0.25	0.51	1.15	1.77	2.70	3.78	4.46

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0.62	1.62	2.28	2.75	3.19	3.60	3.93
UK GILTS	0.72	1.71	2.74	3.36	3.90	4.37	4.39

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3750	-4.74	26.09	3.79
DOW JONES	10144	-2.72	26.79	2.70
FTSE 100	5220	-3.56	25.80	3.58
EPRA EUROPE	1239	-1.38	34.68	4.21

Source: Bloomberg

NEWS TICKER

The S&P/CaseShiller index of home prices in ten big American cities rose by a seasonally adjusted 0.2% in November, the sixth successive monthly increase. Prices were 4.5% lower than a year earlier.

Britain crawled out of its longest postwar recession at the end of last year. Its GDP rose by 0.1% in the three months to December.

Eurozone manufacturing output accelerates: The eurozone's manufacturing sector grew at its fastest rate for two years in January, but the chasm between the bloc's healthiest and weakest economies is widening, according to a closely watched survey.

The Ifo index of Germany's business climate rose from 94.6 to 95.8 in January. Companies were more satisfied with the current situation and more optimistic about the next six months than they had been in December.

Hungary's central bank lowered its benchmark interest rate by a quarter of a percentage point, to 6%, on January 25th.

Japan's exports on a customs basis rose by 12.1% in the year to December. This was the first month since September 2008 in which exports were higher than a year earlier. (Sources: The Economist, Bloomberg, AEW Europe)

REAL ESTATE MARKET INDICATORS

AEW Europe: 2010 will be an inflexion point for European real estate. In its latest Quarterly Research report, AEW Europe explains that 2009 started in gloom, but ended in "qualified hope". Quantitative easing, low interest rates, bank bailouts and guarantees, scrappage schemes all boosted the European economies enough to avoid the worst. An inflexion point has now been reached, but more fiscal tightening, intervention and inflation in the mid-term as well as volatility in optimism is expected. The timing of recovery will not be parallel across all countries, and AEW Europe sees opportunities for core and opportunistic strategies and expects Germany, France and the UK to outperform in the short term. The report is reasonably positive about offices (in the UK, France, Germany), prime logistics, large shopping centres, and inner-city retail. Overall, although rental values will fall throughout 2010, this should reverse in 2011/2012 as occupier demand recovers in what will be a rather supply constrained market. In conclusion, AEW Europe's scenario indicates a quite positive picture for long-term institutional investors targeting real estate. Occupier markets may take a couple of years to fully recover, but, looking back over the last 20 years and forward to the next 20 years, 2010 looks like a good time to re-deploy real estate capital in Europe.

SELECTED OFFICE MARKETS

European office markets: Take up fell by 32%: According to DTZ Europe, a total of 7.6 million sqm were newly rented on European office markets in 2009. The brokerage reported that this is 32% less than last year and 29% less than the average of the last five years. Also, it observed a significant upward trend in Q4 in which, compared to Q3, new rentals increased by 39% to reach 2.5 million sqm. In the closing quarter, the vacancy rate in Europe rose by 0.3 percentage points to 10.8% and, for top rents, DTZ registered a decrease of 1.4%. The London market, where vacancy rates have already decreased again, did somewhat better than the European average and peak rents increased slightly. DTZ, for the whole of Europe in 2010, said it expects a minimal, 0.16% increase in rents and the company forecast increases of peak rents of 2.4% per year until 2014.

Paris offices more affordable as London's West End returns to number one global spot: Paris is no longer among the top five most expensive office locations in the world, as London's West End entered 2010 as the world's most expensive city to occupy office space in, according to DTZ.

SELECTED OFFICE MARKETS (Q4/2009 DATA)	VACANCY RATE (%)		PRIME RENT (€/SQM/YR)		PRIME NET YIELDS (%)		BUSINESS CONFIDENCE
PARIS (CBD)	6.3	↑	644*	↑	5.50	↓	↑
LONDON (CENTRAL)	10.3	↓	778	→	5.39	↓	↑
MUNICH	8.7	↑	336	↓	5.25	→	↑
PRAGUE	13.7*	↑	228	→	6.50*	↑	N.A.
MILAN	9.3*	↑	336	→	5.67	↓	↓

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

SELECTED RETAIL MARKETS

No increase in market share for discounters in Germany: For the first time in 50 years, the discounters were unable to gain any further market share. According to market research institute GfK German discounters' share of the entire retail grocery segment stagnated in 2009 at approximately 44.6% (a very high level compared to European average). In Germany, the report says, Aldi lost more than 4% of its turnover, and its share in the market fell from 19% to 18.4%. The market share of Lidl is reported to be stagnating at 9.8%. GfK's consumption researcher, Wolfgang Twardawa, told the magazine, "The era of tumultuous growth is over," and gave tough price competition, reduction of business volume for items on sale, and structural problems as the reasons. The discounters, he said, are increasingly competing with themselves due to the expansion of their branch networks.

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

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