

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@aewurope.com for subscription information.

CAPITAL MARKET INDICATORS (old)

Bond traders declare inflation dead after yields fall: The bond vigilantes who punished governments for profligate spending in past years have gone into hiding. Sovereign bonds yield an average 2.385%, about the same as a year ago and below the average of 3.08% in 2008 when the credit market seizure led investors to seek the safety of government debt, according to Bank of America Merrill Lynch index data. The cost to borrow is steady even though the amount of bonds in the index that includes nations from the U.S. to Germany and Japan has grown to €13 trillion from €10 trillion two years ago.

ECB warns of global imbalances threat: Distortions in the global economy that provided the backdrop to the financial crisis threaten to widen again and upset the worldwide recovery, the European Central Bank has warned. The ECB has made clear its fear that governments are not doing enough to put the global economy back on a sustainable growth path – despite international policy initiatives in the past year. “At the current juncture, global imbalances continue to pose a key risk to global macroeconomic and financial stability. The stakes are high to prevent a disorderly adjustment in the future that would be costly to all economies,” it concludes in a special article in its monthly bulletin published on Thursday.

Euro weakens on concern Greek aid package still faces hurdles: The euro declined, sliding for the seventh time in eight days against the dollar, on concern the European Union-led Greek bailout plan will face hurdles as donor countries begin ratifying the aid package. The euro fell against all 16 of its most-traded peers, dropping most against the pound and the rand, after German Finance Minister Wolfgang Schaueble said yesterday that his nation’s aid for Greece can still be rejected. (Sources: FT, Bloomberg, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0.34	0.65	1.13	1.45	1.79	2.36	3.21	3.60
UK SWAP	0.54	0.66	0.95	1.77	2.31	3.04	3.87	4.10
US FED FUNDS SWAP	0.25	0.32	0.58	1.21	1.80	2.70	3.77	4.44

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0.56	1.20	2.08	2.53	3.05	3.41	3.79
UK GILTS	0.67	1.92	2.81	3.41	4.01	4.46	4.58

Source: Reuters

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3984	0.38	31.33	3.53
DOW JONES	11134	7.44	40.81	2.44
FTSE 100	5760	5.74	42.44	3.25
EPRA EUROPE	1292	1.92	32.51	4.59

Source: Reuters, Datastream

NEWS TICKER (old)

EU trade surplus in February: The euro area went from having a trade deficit of €9 bn with the rest of the world in January to having a surplus of €2.6 bn in February. Exports in February were 2.7% higher than in January on a seasonally-adjusted basis, while imports increased by 1.5%.

Greece’s Current-account Deficit More Than two-and-a-half times last February’s figure: The deficit accounted to €3.25 bn in February, compared to €1.24 bn a year earlier. The unemployment rate rose to 11.3% in January from 10.2% in December.

Inflation gathered pace in both the Euro Area and in Britain: British inflation quickened to 3.4% in March from 3% in February. Inflation in the euro area, which was 0.9% in February, rose to 1.4% in March.

Britain’s unemployment rate for the three months to the end of February was 8%: This is an increase of 0.1% points over the rate for the previous three-month period. The number of people claiming unemployment benefits edged down in March by 32,900 to 1.54m.

U.K. house prices rose in April at the slowest pace in three months: This came as the supply of homes for sale picked up, Hometrack Ltd. said. (Sources: Bloomberg, The Economist, AEW Europe)

REAL ESTATE MARKET INDICATORS

European Investment Growth maintained in Q1 2010: The average quarterly investment volume over the last four quarters across Europe rose 12% from €15.4 bln. to €17.2 bln, maintaining the growth momentum of 13% seen over Q4 2009, reports global real estate advisor, DTZ, in its Q1 2010 European Investment market update. In Europe’s major markets, Germany grew its share of activity, as volumes rose 32% from €3.6 bln. in Q4 2009 to €4.7 bln. in Q1 2010. In contrast, however, volumes were disappointing in the UK and France, where activity fell by 48% and 56% respectively as investors were frustrated by a relative lack of opportunities in the market place.

All-property total returns in the UK increased to 6.2% in Q1: According to the latest JLL UK Quarterly Property Index, returns were boosted by the 4.5% increase in capital values, which was driven completely by falling yields across all three major sectors. The office sector recorded the strongest returns at 6.9%, reflecting capital value growth of 5.1%. Office capital values were boosted by strong growth in the City and West End office markets. The retail and industrial sectors recorded comparable returns of 6.6% and 4.5% respectively. Although average rental growth for all property remained negative in Q1 2010 at -0.05%, the office sector recorded the first positive quarterly rental growth since March 2008 at 0.18%, with increases in the City and West End office markets. (Sources: PropertyEU, Europe RE, AEW Europe)

SELECTED OFFICE MARKETS

Substantial rise in London office rent expectations: (OLD) According to the RICS’ UK Commercial Property Survey, there are signs of a turnaround in some sectors of London’s commercial property market. Rental expectations rose dramatically for London offices moving above zero for the first time since Q4 2007 as available space declined for the second consecutive quarter. This is the first time more RICS surveyors have reported an anticipated rise in rents for two years. The positive net balance of 57% (compared with the previous reading of zero) for central London office property was the biggest upward jump on record. This contrasts with the picture in the rest of the UK where available space is rising across all sectors and rental expectations are still negative. (Sources: Europe RE, AEW Europe)

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 ↓	↑
DÜSSELDORF	10.5 ↓	264 →	5.50 →	↑
BUDAPEST	19.8 ↑	174 ↓	7.00 →	↑
ROME	8.7 ↓	350 ↓	5.37 ↓	↑

Source: PMA, CBRE, AEW Europe

SELECTED RETAIL MARKETS

Nine new Shopping Centers in Germany in 2010: By the beginning of 2011, shopping center space in Germany will probably grow by about 228,000 sqm to more than 13.7mn sqm. According to EHI Retail Institute, following the 14 new openings in 2009, nine centers will be going on the market this year. All in all, 52 new buildings with a total area of around 1.4mn sqm are in planning at the moment, most of them by far in city center locations (37). As during the past few years, the number being developed in North Rhine-Westphalia (14 centers, 390,000 sqm) is largest, followed by Hesse (8) and Lower Saxony (6). Not only new buildings are being worked on, however: 35 of the existing 428 centers are currently being renovated. (Sources: PropertyEU, AEW Europe)

SELECTED LOGISTIC MARKETS (2009)						
	PRIME RENTS (€/SQM/YR)	ANNUAL TREND	YIELDS (%)	ANNUAL TREND	2009E TOTAL RETURN (%)	ANNUAL TREND
PARIS	54	↓	8.0	↑	-5.6	↑
HAMBURG	66	→	7.3	↑	1.1	↑
PRAGUE	52	↓	8.2	↑↑	-17.6	↓↓
MADRID	72	↓↓	7.5	↑↑	-23.6	↓↓

Source : PMA, AEW Europe