

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

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## CAPITAL MARKET INDICATORS

**America unlikely to repeat Japan's experience with US equities to outperform Chinese equities over the medium term:** Japan's collapse in the early 1990s left its economy crippled for over a decade. The US was hit by the most severe financial crisis since the Great Depression, but is likely to recoup its loss of output much faster. Both saw debt spiral out of control, but in the US it did not finance overinvestment. It is China which is plagued by excess capacity. A global rebalancing should involve the US producing and investing more.

**All the major central banks have undertaken some form of unconventional policy since crisis broke.** There is widespread agreement on the need to solve banks' liquidity and funding problems. On the issue of 'quantitative easing', however, there is almost complete disarray amongst central bankers on what constitutes QE, how it works and how successful it has so far been. The Fed has been buying large quantities of financial assets from markets it believes are malfunctioning. Central banks should play a role in assuaging liquidity problems both between banks and in important credit markets. But their primary responsibility in a situation where the banking system is damaged and reducing leverage is to ensure sustained growth in the private sector's bank deposits. If necessary private sector debt reduction causes the money stock to stagnate, or even start shrinking, there is little hope of a sustainable economic recovery. This conclusion is even more powerful for the Euro Area economy, where firms' access to capital markets for external finance is more restricted. (Source: LSR, FT, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0,34	0,74	1,31	1,88	2,29	2,82	3,54	3,96
UK SWAP	0,51	0,57	0,96	0,96	2,59	3,30	3,95	4,09
US FED FUNDS SWAP	0,14	0,28	0,66	1,39	1,99	2,78	3,64	4,20

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0,81	1,91	2,51	2,88	3,32	3,83	4,07
UK GILTS	0,48	1,63	2,67	3,06	3,63	4,02	4,19

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3874	20,40	16,35	3,77
DOW JONES	9996	13,90	12,92	2,76
FTSE 100	5253	18,46	29,28	3,64
EPRA EUROPE	1271	30,29	1,70	4,46

Source: Bloomberg

## NEWS TICKER

**The value of retail sales in America fell by 1.5% in September,** reversing some of the 2.2% increase in August. The volatile monthly pattern owed a lot to car sales, which have been heavily influenced by government incentives. Excluding cars, retail sales rose by a healthy 0.5% in September, following a 1% increase in August. Q3 GDP growth may have been around trend; but Q4 will be weaker again.

**Inflation in Britain fell by more than had been expected in September.** Consumer prices were 1.1% higher than a year earlier, the lowest annual increase in five years and well below the central bank's target of 2%. Inflation in August was 1.6%. The unemployment rate was 7.9% in the three months to August, unchanged from the rate in the three months to July.

**The recovery in the euro-area economy gathered pace.** Industrial production in the euro-zone rose by 0.9% in August, following a 0.2% increase in July. Industrial output in Italy rose by 7% in August, thanks partly to stronger car production. Industrial production rose by 1.9% in France, 1.5% in Germany and 1% in Spain.

**Sweden's consumer-price inflation was minus 1.6% in September,** the lowest rate recorded since 1933. (Source: The Economist, AEW Europe)

## REAL ESTATE MARKET INDICATORS

**Non-listed property funds move towards consistent approach for reporting:** Adoption levels of the INREV Guidelines on reporting continue to improve among non-listed property funds, according to an INREV survey. The latter shows that 81% of the 2008 annual reports surveyed had adopted the majority of the INREV Guidelines related to reporting vs 73% in 2007. The number of funds applying at least 75% of the Guidelines doubled from 20% to 43% over the year.

**Investment volumes jump 53% in third quarter according to Cushman & Wakefield:** Green shoots of recovery are at last starting to appear in the European property market, with investment volumes jumping 53% in Q3, yields stabilizing and even the occupational market managing to show some more encouraging signs.

**RICS: Lack of supply pushing up prices:** A lack of supply is still underpinning the house price recovery says RICS UK housing market survey published today (13 October 2009). Significantly, the headline RICS house price balance recorded the highest figure since the onset of the credit crunch.

**France's lease indexation rather feeble in Q2.** According to INSEE, the ICL (retail indexation) for Q2 posted a mild increase of 0.84% yoy, confirming the slowing down in Q1 09 (2.13% yoy), and 4.16% in Q4 08 yoy. The major index, the ICC actually posted a substantial decline, at -4.10% yoy.

## SELECTED OFFICE MARKETS

**Upward trend of Germany's prime office yields stops:** Prime yields on office buildings in the big five German office markets of Berlin, Düsseldorf, Frankfurt, Hamburg and Munich remained largely unchanged over the past three months, according to Savills. The investment market in Germany appears to have bottomed out. In the third quarter, JLL stated, the transaction volume reached €3.3bn – 70% more than in the second quarter. For the last quarter, JLL is anticipating a further transaction volume increase to approximately €4bn, which would mean sales of about €11bn for the year. In the seven property strongholds of Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart, sales continued to rise during the third quarter as well. Of the total of €3.3bn invested, nearly two thirds went to these markets; in the two preceding quarters, their market share was only 47% of the total volume

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	↑
MUNICH	8.4	↑ 354	↓ 5.25	→
BUDAPEST	15.3	↑ 186	→ 6.79	↑
ROME	8.7	↑ 380	↓ 5.51	↓

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

## SELECTED LOGISTICS MARKETS

**European industrial investment volumes in H1 2009 down 50% y-o-y According to JLL:** Total direct industrial real estate investment volumes amounted to €2.2 billion in the first half of 2009 reflecting a 45% fall on H2 2008 and a 50% fall on H1 2008 according to Jones Lang LaSalle's latest 'European Industrial Markets Autumn 2009' report.

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	54	↓	8.0	↑	-3.2	↑
WARSAW	55	↓	8.4	↑↑	-15.1	↓
MILAN	78	↓	7.7	↑↑	-19.6	↓↓

Source: PMA, AEW Europe