

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

The correlation between Treasuries and German bunds that has prevailed since credit markets started freezing in 2007 is breaking down as U.S. economic growth leaves Europe behind. Yields on U.S. 10-year Treasury notes rose twice as fast as German debt with a similar maturity since the start of December, according to data compiled by Bloomberg. The bonds had traded almost in tandem since April 2007 as investors sought a refuge from the first global recession in six decades and then shifted to higher-yielding assets in 2009. Strategists say Treasuries may post a second year of losses in 2010 because Federal Reserve Chairman Ben S. Bernanke will raise interest rates as America's GDP increases 2.6% while Germany's expands 1.9%, Bloomberg surveys show. U.S. yields will grind higher because America's fiscal outlook will remain weak for the next several years. That contrasts with Germany, where a constitutional amendment has mandated a balanced budget by 2016. Treasury 10-year yields may rise 30 to 40 bps by May, causing the gap between bunds and U.S. notes to widen to 100 bps or more from the current 45 bps. Treasury yields is expected to rise more than bunds because the European Central Bank's sole focus on fighting inflation will cause ECB President Jean-Claude Trichet to raise interest rates faster than Bernanke. (Sources: FT, LSR, Bloomberg, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0.35	0.69	1.24	1.75	2.17	2.72	3.52	3.98
UK SWAP	0.51	0.61	0.90	0.90	2.48	3.27	4.04	4.20
US FED FUNDS SWAP	0.11	0.25	0.53	1.23	1.90	2.86	3.92	4.58

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0.66	1.54	2.38	2.95	3.37	3.79	4.12
UK GILTS	0.70	1.75	2.81	3.45	4.01	4.42	4.46

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	4075	3.53	23.51	3.51
DOW JONES	10618	1.82	23.48	2.58
FTSE 100	5564	2.80	25.08	3.35
EPRA EUROPE	1262	0.46	16.18	4.36

Source: Bloomberg

NEWS TICKER

An American purchasing managers' index pointed to a fifth consecutive month of growth in the country's manufacturing sector in December. The Institute for Supply Management's PMI rose to 55.9, its highest level since April 2006, when it was 56. Nine of 18 manufacturing industries reported growth in December.

An index of purchasing managers in euro-area service industries hit a 25-month high of 53.6 in December, suggesting that activity in the sector is growing at an increasing rate. The index measuring service-sector employment also rose, to 47.4, from 45.8 in November. A reading below 50 indicates shrinkage, so employment in services is still falling. However, according to latest data, **Euro-area industrial orders did fall by 2.2% in October,** leaving them 14.5% lower than a year earlier.

Industrial producer prices in the euro area rose by 0.1% in November, though they were still 4.4% lower than a year earlier. Consumer prices in the region rose by 0.9% in the year to December, according to an early estimate. (Sources: The Economist, AEW Europe)

REAL ESTATE MARKET INDICATORS

Direct investment in European real estate expected to reach €85 billion in 2010 according to JLL: Jones Lang LaSalle expects 2010 to be a challenging year for investors to navigate, with recovery uneven across Europe, according to a new report. Investors will find it difficult to secure product, to identify value and to establish pricing levels. Many investors and banks will still be working through legacy issues and refinancing remains a major concern.

Investment in London commercial property rallies at year end: London has recorded its third consecutive quarter of rising investment in commercial property according to new statistics from property adviser Cushman & Wakefield. In Q4 investment volumes rose to £3.096 bn, up from £1.602 bn in Q3, for an annual total of £6.81 bn. (€7.8 bn.). (Sources: EuroProperty, AEW Europe)

King Sturge Property Predictions for 2010: 2010 will be a boom year for commercial property investment - the best returns for four years - but is it a false dawn? Total returns may well stay positive but capital values may fall again by 2012. All commercial occupational markets across Europe will remain soft for 2-5 years; rents will continue to fall.

SELECTED RETAIL MARKETS

U.K. supermarket price war intensifies. Britain's No. 2 grocer is cutting prices on 3,600 products — one in five products in the store — by an average of 13%. The move is expected to ratchet up the battle between Wal-Mart owned Asda and rivals Tesco and Sainsbury. (Source: Reuters)

Marks & Spencer sales increase disappoints. Marks & Spencer said same-store sales rose by 0.8% in the U.K. in the three months to Dec. 26. The increase, which was below the 1.2% expected by analysts, caused shares in the U.K. retailer to plunge by 6.8%. (Source: BBC)

In France, according to the Nielsen barometer relayed by LSA magazine, **inflation was +0.06% on leading products (the 7,000 items on sale in over 40% of food hypermarkets and supermarkets).** Overall, there was zero inflation in hypermarkets at the end of December, a level which will very probably continue through 2010, according to analysts at Natixis.

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 LOGISTICS MARKETS

Recovering freight volumes may not be enough to resolve container shipping sector problems in 2010. Global freight volumes may be recovering but the container shipping sector remains burdened with problems, a situation which looks set to continue through 2010. Drewry Shipping Consultants forecasts that global container volumes will grow by 3.4% in 2010 and rates will improve by 14.1% on the key east-west transpacific route. Yet such increases will be insufficient for many companies as they struggle to return to profitability after huge cuts in capacity and falls in rates during 2009. (Source: Transport Intelligence)

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