

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

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CAPITAL MARKET INDICATORS

US in pole position to boost post-crisis growth rate: Large financial crises tend to cut potential output and weaken trend growth. But the US, not having gone through an excess investment boom, may ultimately be better positioned than other countries to survive and recoup its losses. Buoyant US data imply the possibility of surprisingly strong growth in Q3. But recent (relative) strength may be deceptive. Parts of the fiscal stimulus (cash for clunkers, home buyer support) have run out or are running out. Add the prospect of continued deflation and the conclusion is that the monetary stimulus must and will remain in place. However it is probable that the US financial sector will suffer in coming quarters. US consumer credit continued to contract in August. In order to bring their debt down to manageable levels, US households are likely to keep repaying debt (ie, increase their savings) into 2011. This means no net new private sector borrowing for a long time – a severe squeeze on the financial sector.

Blackstone in listing spree: Blackstone, the world's largest buy-out firm, is planning to list up to eight companies it owns and sell at least five others, marking a reversal of its pessimistic view of the global economy and financial markets. Steve Schwarzman, Blackstone's founder, told investors in a letter sent on Friday: "We see the world changing once again. At least for private equity, the worst is behind the industry." Mr Schwarzman's stance is noteworthy because no other leading buy-out firm anticipated the economic downturn to the extent that Blackstone did, nor turned as bearish as early. (Source: LSR, FT, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0,33	0,74	1,24	1,77	2,18	2,72	3,43	3,85
UK SWAP	0,50	0,56	0,90	0,90	2,40	3,08	3,71	3,90
US FED FUNDS SWAP	0,13	0,28	0,64	1,33	1,92	2,77	3,56	4,13

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0,77	1,82	2,38	2,76	3,19	3,72	3,92
UK GILTS	0,42	1,44	2,46	2,79	3,39	3,81	4,01

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3846	19,52	21,08	3,82
DOW JONES	9865	12,40	16,73	2,83
FTSE 100	5218	17,67	32,70	3,66
EPRA EUROPE	1244	27,55	2,89	4,76

Source: Bloomberg

NEWS TICKER

The number of people unemployed in America went up by 214,000 in September. The unemployment rate rose by a tenth of a percentage point, to 9.8%. Since the recession began in December 2007, 7.6m Americans have lost their jobs. The value of new orders for manufactured goods was \$352.9bn in August, a decline of 0.8% from the previous month. Orders for durable goods were hardest hit: they fell by 2.6%.

Britain's index of production slid by 2.5% in August, having gone up in the two previous months. The mining and quarrying industries contracted by 7.3% and manufacturing by 1.9%. The index is at its lowest since 1987.

According to revised figures, the euro area's GDP shrank by 0.2% in the second quarter. The deficit for the euro area rose to 5.6% in August from 5.4% in July. Retail trade in the currency zone fell in August by 0.2%. But Germany's manufacturing orders went up by 1.4% that month, after rising by 3.1% in July.

In Japan, where 3.6m people are unemployed, the jobless rate fell by 0.2 percentage points in August, to 5.5%. A year ago the unemployment rate was 4.1%. The country's merchandise-trade surplus increased to \$15.2bn in the 12 months to August from \$10.8bn in the 12 months to July. (Source: The Economist, AEW Europe)

REAL ESTATE MARKET INDICATORS

German center-right political parties, in talks on forming a new coalition government, are considering financial market reforms to boost the country's REITs. According to Leo Dautzenberh (CDU) reforms involve the possibility for REITs to invest into residential real estate as well as an extension of the exit tax.

GOEF investment activity accelerating with €12bn potential spending power: Liquidity levels across the German Open-ended Fund (GOEF) sector have been on the increase compared to the recent past, according to CBRE. The GOEF sector as a whole currently holds around €18bn in cash or immediately liquid assets, which translates into up to €7.5bn immediate spending power on real estate. This increases to as much as €12bn over the next two years if inflows continue as expected.

Investor interest to spread from primary to secondary property in key European markets: CBRE's European investment market briefing revealed that investor sentiment is improving across much of Western Europe, mirroring the better economic performance that has been seen and the strong run in Europe's stock markets since March. Many REITs are now trading at a premium to NAV, indicating an expectation of improving capital values.

Investors support continuation in the non-listed real estate funds market: In the current market, fund managers and investors tend to opt for fund extensions when evaluating fund terminations according to the latest INREV study.

SELECTED RETAIL MARKETS

Europe sales post slight August decline: August retail sales across the euro zone fell by a less-than-expected 0.2% from July, and by 2.6% year on year, according to Eurostat. Spain saw a rebound of 1.4% for the period, while sales fell 1.5% in Germany, the euro zone's biggest economy. (Source: Forbes)

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	0.5 ↓	0.4	2514 ↓	5.7 ↑	0.1
GERMANY	0.1* ↑	-0.4*	2665 ↓	4.8 ↑	0.3
ITALY	-2.1 ↓	0.1	1937 ↓	5.3 ↑	0.7
SPAIN	-3.8 ↓	-0.4	1924 ↓	5.8 ↑	-0.2

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

SELECTED LOGISTICS MARKETS

According to Savills annual take-up is expected to contract by around 35% on average at year-end 2009. Supply chains will be re-concentrated around the main consumption basins and restructure around the food industry and the low-cost sectors. Vacancy rates will increase although reasonably as nearly no speculative scheme will be launched in 2009. The main issue regarding supply will be the ageing of the vacant stock that might even further slow down demand in some locations. Rents should remain under pressure until the end of the year at least, although they will not show very sharp decline as availability will not flood the European markets. Investment activity will remain limited notably due to restrained access to financing. Having to face extremely difficult conditions, some manufacturers would opt for the sale of their real estate assets with the aim of raising capital. This could provide the market with good opportunities. Yields will continue to move out until the end of the year, notably for secondary warehouses.

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	59	↓	8.4	↑↑	-14.7	↓↓
MILAN	78	↓	7.9	↑↑	-21.5	↓↓

Source : PMA, AEW Europe