

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

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CAPITAL MARKET INDICATORS

China's export growth to deflate rest of world as GDP rose by 8.9% in the year to the end of September, up from 7.9% in the year to the second quarter. This Chinese GDP data, combined with earlier third quarter trade numbers and July-August export and import price changes (from the year before), add up to a significant threat of deflationary impact on the rest of the world rather sooner than previously supposed. The strength of China's rebound means the output gap now appears slightly positive. This implies restrictive policy. Combined with continued full-steam-ahead on export stimulus – via the yuan link to the devalued dollar – tight policy can only restrict domestic demand and imports.

ING Group NV will split in two as part of a restructuring deal with the European Commission, turning into a smaller Europe-focused bank over the next four years and leaving its balance sheet 30% smaller than before its bailout. The company also said it would pay back 50% of its aid from the Dutch state early and launch a 7.5bn euro rights issue. The restructuring deal is the most striking example yet of the deep changes EU's executive arm plans to force on major banks that received state aid. It is trying to push through most of those rulings soon, before the current commission's term expires. A rescue plan for Germany's Commerzbank got the go-ahead from European antitrust regulators in May on the understanding that it divests about 45% of its balance sheet. According to Forbes, other banks expected to be ordered into disposals are RBS, Lloyds Bank, KBC and Dexia.

Britain's ongoing recession is the longest and deepest since the war: Britain's recession, already the deepest since the Second World War, has now become the longest, lasting for six consecutive quarters. Contrary to widely held expectations that the economy had started to recover over the summer, it shrank by 0.4% compared with the level of activity in the second quarter. As a result GDP has now fallen by 6% since its peak at the start of 2008. (Source: LSR, The Economist, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0,34	0,73	1,28	1,86	2,30	2,85	3,61	4,04
UK SWAP	0,51	0,59	0,95	0,95	2,59	3,31	3,98	4,13
US FED FUNDS SWAP	0,10	0,28	0,66	1,39	2,01	2,82	3,69	4,25

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0,75	1,86	2,53	2,91	3,36	3,87	4,13
UK GILTS	0,49	1,67	2,76	3,15	3,69	4,10	4,20

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3818	18,65	19,55	3,82
DOW JONES	9972	13,63	19,01	2,80
FTSE 100	5253	18,47	35,27	3,66
EPRA EUROPE	1269	30,09	17,24	4,45

Source: Bloomberg

NEWS TICKER

America's Federal Reserve said that reports from its 12 regional branches had indicated "either stabilisation or modest improvements in many sectors" albeit mostly from depressed levels. That assessment of faltering recovery chimed with the latest figures from the housing market. New housing starts rose by a modest 0.5% in September and estimates for new buildings in July and August were revised down. Building permits granted for new houses fell by 1.2% in the month.

The euro area recorded a trade deficit of €4bn (\$57bn) in August, following a €12.3bn surplus in July. Exports plunged by 5.8% in August, more than offsetting the 4.7% rise in July. The output of construction firms in the currency zone fell by 0.4% in August, the fourth straight monthly decline. That left output 11.3% lower than a year earlier. Spain's construction output shrank by a fifth from its level last August.

Disappointing trend in retail sales the UK: Retail sales over one year rose by 1.8% in value terms and 2.4% in volume according to the ONS. In non-food, sales were up by 1.6% in value terms and 1.1% in volume. Inflation in September 2009 was -0.5% YOY. **In France, low-priced goods and manufacturers' own brands emerge winners** from the crisis. (Source: The Economist, AEW Europe)

REAL ESTATE MARKET INDICATORS

German Open-ended funds - BVI finds one-year performance of 2.7%: From the end of September, 2008, until the end of September, 2009, German open-ended funds achieved an average performance of 2.7%. For the last three years, the average result was 4.4%. According to the current figures compiled by the Bundesverband Investment und Asset Management (BVI), the open-ended real estate funds were ahead of the German stock market funds (0.3%) for the past twelve months, but lagged considerably behind the pension funds investing in bonds issued in Euros, which obtained 8.7%. Of the open-ended funds during the period studied, Morgan Stanley's P2 Value was at the bottom of the BVI scale, as it brought in a performance of -12.0% due to severe devaluations; a negative performance (-6.5%) was also attained by iii-investments' Euro ImmoProfil. The best results for the period were scored by Crédit Suisse's CS Property Dynamic, at 5.3%, followed by KanAm's Spezial grundinvest and SEB's SEB ImmoPortfolio with 5.0% each.

Pirelli possible reviving tyre, real estate split according to Forbes: Italian conglomerate Pirelli & C SpA could separate its tyre activities from its listed real estate unit, giving a fillip to the group's value at a time the financial results of its tyre unit are looking up.

SELECTED OFFICE MARKETS

Central London office activity signals recovery: Central London take-up in the third quarter rose to 2.6 million ft² (240,000 m²), up from a low of 1.1 million ft² in the first quarter, according to new research from CBRE. In addition, the amount of space under offer rose to 2.4 million ft² from 1.6 million ft² in the previous quarter. Available office space fell by nearly 1.5 million ft² during the third quarter, which took supply at the end of the quarter to 19.9 million ft². Reflecting this trend, the vacancy rate fell to 7.2% from 7.7% in Q2.

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 ↑	↑
COLOGNE	11.2 ↑	240 ↓	5.60 →	↑
PRAGUE	11.7 ↑	220 →	6.36 →	↑
MADRID	8.0 ↑	372 ↓	5.89 →	↓

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

SELECTED RETAIL MARKETS

European retail real estate investment dominated by Big Five in Q3 2009 according to JLL: Transaction volumes in retail investment in the UK and continental Europe over the first three quarters of 2009 totalled circa €8.1bn, just over half the level seen in the same period in 2008 (€15.6bn), according to new research from Jones Lang LaSalle.

Arcandor Sale of Quelle fails: The sale of the insolvent Primondo mail order group, with its core brand name Quelle, has failed. The insolvency administrator, Klaus Hubert Görg, announced, "After intensive negotiations with numerous investors, both the insolvency administrator and the committee of creditors no longer see any alternative to the phaseout of Quelle Deutschland." Quelle's "sound business abroad" is now to be sold separately.

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