

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

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**CAPITAL MARKET INDICATORS**

**Manufacturing in China & U.S. Expanding in Global Recovery:** Factories from China to the U.S. accelerated in March, pointing to a rebound in international trade that is contributing to a global economic recovery. Manufacturing in China grew for a 13th month and U.S. factories expanded the most since July 2004, reports showed. Business sentiment in Japan rose to the highest since 2008, while factories in Britain and the euro region stepped up production.

**Goldman Capitulation on Dollar Shows Reversal on U.S.:** The strengthening U.S. economy, subdued inflation and rising stock prices are propelling the dollar rally into its fifth month as traders seek refuge from Europe's fiscal crisis and Japanese deflation. Goldman Sachs Group Inc. and Citigroup Inc. ended bets on a falling dollar last week after the trades lost 2.8 percent. Strategists are raising greenback forecasts at the fastest pace since last March, just before U.S. stimulus efforts that poured as much as \$12.8 trillion into the economy ended the currency's strongest rally in 28 years.

**Cheap Mortgages May Last as Investors Replace Fed:** The Federal Reserve's completion this week of its program to buy \$1.25 trillion in mortgage bonds probably won't mean significantly higher U.S. home loan rates as investors return to the market, replacing the Fed. Fixed mortgage rates likely will rise less than a quarter of a percentage point in the next three months, the smallest increase for the second quarter since a drop in 2005, according to estimates by Fannie Mae and Freddie Mac. (Sources: Bloomberg, Financial Times, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0.33	0.64	1.11	1.43	1.78	2.37	3.24	3.66
UK SWAP	0.54	0.65	0.91	1.54	2.06	2.83	3.79	4.09
US FED FUNDS SWAP	0.22	0.29	0.56	1.24	1.87	2.84	3.91	4.59

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0.67	1.28	2.14	2.60	3.08	3.44	3.79
UK GILTS	0.68	1.77	2.70	3.31	3.92	4.36	4.48

Source: Reuters, Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	4034.23	2.49	35.64	4.32
DOW JONES	10927.07	4.79	35.18	2.50
FTSE 100	5744.89	6.13	44.21	3.23
EPRA EUROPE	1301.24	3.56	37.41	4.46

Source: Reuters, Bloomberg

**NEWS TICKER**

**Employment in the U.S. Increased in March by the Most in Three Years:** Payrolls rose by 162,000 last month and the unemployment rate held at 9.7 percent as companies gained confidence the economic recovery will be sustained.

**America's GDP Growth in Q4 Less Than Expected:** The annualised rate of growth of America's GDP in the fourth quarter of last year was revised down by 0.3 percentage points to 5.6%.

**Consumer Confidence Stronger in U.S.:** An index of consumer confidence published by the Conference Board, a research firm, rose to 52.5 in March from 46.4 in February.

**Britain's Fourth-Quarter GDP Growth was Revised up:** This was by a tenth of a percentage point to 0.4%, leaving the British economy 3.1% smaller than in the fourth quarter of 2008.

**German Retail Sales Fell for Second Month in February:** Sales, adjusted for inflation and seasonal swings, fell 0.4 percent from January when they declined 0.5 percent, the Federal Statistics Office in Wiesbaden said today.

**Germany Registers a Rise in Annual Inflation:** The rate rose to 1.1% in March from 0.6% in February.

**Industrial Production in Japan Falls:** After rising for 11 months in a row, industrial production in Japan fell by 0.9% in February. Output was still 31.3% higher than a year earlier. Consumer prices fell by 1.1% in the year to the same month. (Sources: The Economist, Bloomberg, Business Week, LSR, AEW Europe)

**REAL ESTATE MARKET INDICATORS**

**European Housing Showing Recovery Signs:** A significant number of European residential markets revived starting from Q2 2009 with further revival expected in 2010 according to RICS. Low interest rates and reviving economies helped avoid a housing market meltdown across much of Europe. The downturn seems less severe than the one in the 1990s. However countries with vulnerable economies will still experience depressed markets and falling prices. Some countries have experienced sharp price increases. In 2009, prices in Norway rose by 12%, in Finland by 8% and in Sweden by 7%. In the UK, prices rose by 1% in 2009 overall, but by 10% since their lowest point in April. In Germany, Italy, Netherlands and France, last year's falls were relatively moderate (between -4% to -6%) and though today markets are still fragile, they are starting to stabilize and to see some price growth.

**Retail and Bank Sector Dominates Corporate Sale:** The corporate real estate sales market in Europe has undergone a significant shift since the early years when it was dominated by city centre office disposals. In 2009, the retail sector dominated this market for the first time, comprising 44% of total European corporate disposals, according to new research by CB Richard Ellis. The broker found that real estate sales by major players in Europe's banking sector were a dominant feature of the market in 2009. In Spain, a recent example was the disposal of a nationwide portfolio of high street bank branches for EUR 1.15 bn in Q3 2009, which was the most prominent example of banks disposing of their corporate real estate in Europe. (Sources: RICS, PropertyEU, AEW Europe)

**SELECTED OFFICE MARKETS**

**Paris Offices More Affordable as London's West End Returns to Number One Global Spot:** according to DTZ's latest global occupancy costs survey, London's West End has taken the number one spot, displacing Tokyo and jumping above Paris, Dubai and Hong Kong, which were ranked second, third and fourth. Paris and Dubai have now fallen from the top five to take sixth and eleventh place respectively, whilst Hong Kong stays put in fourth place. The rise of London's West End is due to it experiencing a short, sharp rental correction in 2008. This is in contrast with Paris and the other top locations, which saw their rents decline during the course of 2009. Overall, all of the top ten global locations experienced either negative or neutral growth in occupancy costs during 2009. (Sources: Europe Real Estate, 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	↑
MUNICH	8.7	↑	336	5.25	→
PRAGUE	13.7	↑	228	6.59	→
BARCELONA	11.1	↑	240	5.67	↑

Source: PMA, CBRE, AEW Europe

**SELECTED RETAIL MARKETS**

**Germany's Luxury Shopping Streets in Good Shape:** According to Jones Lang LaSalle, Germany's luxury shopping streets were in good shape in 2009, when tenancy turnover was lower than in the previous years. Thanks to good demand, the few properties that became vacant were re-let without any problem and at stable rents. International luxury brands continue to invest in their branch networks and regard the European luxury destinations as "must locations". Led by Düsseldorf's Königsallee and Munich's Maximilianstraße, Germany has a total of five luxury destinations, a number that is internationally competitive. (Sources: Europe Real Estate, AEW Europe)

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	0.7	↑	2628	5.8	0.1
GERMANY	0.5*	↑	2856	4.4	0.4
ITALY	-1.7	↓	2122	5.2	0.8
SPAIN	-5.1	↓	2183	5.7	-0.3

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