

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

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CAPITAL MARKET INDICATORS

The global banking industry was thrown into turmoil on Thursday after President Barack Obama, responding to public rage over the financial crisis, proposed the most far-reaching overhaul of Wall Street since the Glass-Steagall in 1933. Bloomberg reported the banking reform proposals would:

1. **Limit the Scope** – The President and his economic team will work with Congress to ensure that no bank or financial institution that contains a bank will own, invest in or sponsor a hedge fund or a private equity fund, or proprietary trading operations unrelated to serving customers for its own profit.

2. **Limit the Size** – The President also announced a new proposal to limit the consolidation of our financial sector. The President's proposal will place broader limits on the excessive growth of the market share of liabilities at the largest financial firms, to supplement existing caps on the market share of deposits.

In reforms that could force the restructuring of some of the biggest names in US finance, including JPMorgan Chase and Goldman Sachs, Mr Obama promised that "never again will the American taxpayer be held hostage by a bank that is too big to fail". Senior Wall Street bankers heading to the World Economic Forum will use the meeting in Davos to lobby regulators against a rigorous implementation of Barack Obama's plan to cap the size and trading activity of banks. They will also oppose the break-up of large financial institutions and insist there should be a concerted effort to tackle the "too big to fail" issue by other regulatory means.

(Sources: Bloomberg, LSR, FT, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0,32	0,67	1,18	1,64	2,03	2,61	3,43	3,87
UK SWAP	0,51	0,62	0,90	0,90	2,39	3,17	3,98	4,16
US FED FUNDS SWAP	0,13	0,25	0,49	1,12	1,74	2,68	3,74	4,45

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0,59	1,64	2,30	2,78	3,22	3,65	4,02
UK GILTS	0,72	1,74	2,78	3,38	3,92	4,39	4,41

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3790	-3,71	33,03	3,75
DOW JONES	10247	-1,73	26,86	2,67
FTSE 100	5264	-2,75	29,89	3,54
EPRA EUROPE	1233	-1,87	44,16	4,27

Source: Bloomberg

NEWS TICKER

There was mixed news from the American housing market. The number of new housing starts fell in December to an annualised rate of 557,000, 4% below the rate in November but nevertheless 0.2% above the rate in December 2008. Construction began on 553,800 new houses during 2009, 38.8% below the 2008 total. But applications for building permits, an indicator of future house-building, rose by 10.9% in December and were 15.8% higher than a year earlier.

Wholesale prices in America rose by 0.2% during the month of December, marking a slowing of producer-price inflation from November, when prices rose by 1.8%.

China's rapid economic growth continued in the three months to December, with GDP 10.7% higher than a year earlier. Industrial production in December rose by 18.5% year on year. The World Bank expects the economy to grow by 9% in both 2010 and 2011.

The number of unemployed in Britain fell by 7,000 in the three months to November compared with the previous quarter. The unemployment rate was unchanged, at 7.8%. A further 79,000 dropped out of the labour force. The number of people claiming unemployment benefits also fell, by 15,200 to 1.61m in December. (Sources: The Economist, Bloomberg, AEW Europe)

REAL ESTATE MARKET INDICATORS

Strong final quarter confirms European property market recovery: CBRE announced today that European commercial real estate investment turnover grew to €25.7 billion in the fourth quarter (Q4) of 2009, up an impressive 42% on the previous quarter. This is the highest quarterly total since Lehman's collapse, and a confirmation that the upturn in investor interest that started in the major European markets in mid-2009 has now spread further afield in the region.

CEE investment turnover rises significantly in H2 2009, investors focus on core locations: Investment in institutional property in Central and Eastern Europe (CEE) rose significantly in the second half (H2) of 2009, bringing total 2009 turnover to €2.5bn, according to CBRE. Approximately €2bn of this total was traded in H2 2009, a sharp increase (+314%) on H1 2009 turnover. In spite of higher levels of activity in H2, the 2009 market as a whole was quiet compared to recent years. Investment turnover in 2009 finished 75% lower than in 2008, and H2 2009 turnover was still 50% less than H2 2008.

UK Government must send a clear signal on energy efficiency to property sector: On Friday, the UK Green Building Council urged government to phase out the least energy efficient buildings by 2020 and to roll out Display Energy Certificates (DECs), which give an A-G rating on energy use, to all commercial buildings immediately. Government recently announced it would examine the possibility of requiring all buildings to have a minimum F rating by 2020. It has also said it will consult on the roll out of DECs.

SELECTED OFFICE MARKETS

London office rents increased in the fourth quarter of 2009: City rents in Q4 increased for the first time since 2007, and take-up for 2009 was higher in the Square Mile than in 2008, thanks to a second half recovery in activity, according to Knight Frank's provisional statistics. The West End saw rents stabilize, as availability recorded its first decline in over two-and-a-half years.

SELECTED OFFICE MARKETS (Q3/2009 DATA)				
	VACANCY RATE (%)	PRIME RENT (€/SQM/YR)	PRIME NET YIELDS (%)	BUSINESS CONFIDENCE
PARIS (CBD)	5.5	644	5.80	→
LONDON (CENTRAL)	11.0	773	5.89	↓
FRANKFURT	17.4	396	5.50	→
WARSAW	8.9	276	6.39	→
MILAN	11.0	450	5.51	→

Source: PMA, CBRE, AEW Europe

SELECTED RETAIL MARKETS

Hamburg Citizens vote in favour of first central Ikea branch: The road leading to the first city center Ikea branch in Germany has been cleared. In a referendum in the district of Altona, 77.16% of the participants voted in favor of the branch planned for Grosse Bergstrasse. A total of around 80,000 citizens of Altona cast their votes. Ikea was happy about this outcome: Armin Michaely, its director of expansion, issued a statement that said, "We are glad that such a clear majority of citizens welcome Ikea to Altona, and we thank them for the confidence they have placed in us." The firm announced its intention to launch construction work this year. The opening of the furniture store comprising 22,000 sqm of sales area is slated for 2012.

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