

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

Please contact the Research & Strategy Department at +33 1 78 40 92 61 or research@aewurope.com for subscription information.

CAPITAL MARKET INDICATORS

Traders cautious as contagion fears linger: Investors are cautious as lingering concerns about possible contagion from Greek fiscal woes dampened risk appetite. Little relief was garnered from the weekend meeting of the G7 finance ministers. The global economic leaders sought to reassure markets that the debt contagion spreading across southern Europe was under control, expressing confidence that Greece could bring down its debt levels without outside intervention. Bank bulls may have been somewhat disheartened that a consensus appeared to emerge regarding penalising the banks, but it is unlikely any traders were surprised that European representatives promised the eurozone sovereign debt problem could be contained.

Global deflation intensifies: US growth between 2009Q2 and end-2010 looks to be 2%, below-trend, with Q4's 5.7% unsupported by other data, especially jobs. **Germany's** hope for revived export-led growth looks more deluded by the day, with industrial production down 2½% in December. The second down-leg of the 'W' could start this summer. This is not good news for commodities and stocks but could benefit Treasuries/Bunds in the short run. (Sources: Bloomberg, LSR, FT, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0.31	0.66	1.20	1.59	1.95	2.53	3.37	3.66
UK SWAP	0.52	0.62	0.88	0.88	2.26	3.06	3.91	4.08
US FED FUNDS SWAP	0.14	0.25	0.52	1.10	1.68	2.60	3.69	4.38

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0.57	1.48	2.18	2.67	3.15	3.55	3.84
UK GILTS	0.73	2.10	2.97	3.57	3.95	4.40	4.43

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3607	-8.36	15.51	3.94
DOW JONES	9996	-4.14	20.71	2.72
FTSE 100	5092	-5.92	18.65	3.54
EPRA EUROPE	1209	-3.80	31.77	4.30

Source: Bloomberg

NEWS TICKER

America's GDP rose at an annualised rate of 5.7% in the three months to the end of December. The change in inventories accounted for 3.4 percentage points of the quarterly increase in GDP. Service industries expanded in January for the first time since October. The Institute for Supply Management's services index rose from 49.8 in December to 50.5 in January. A figure above 50 indicates rising activity. Jobless rate hits 5-month low but payrolls fall

The U.S. unemployment rate surprisingly fell to a five-month low of 9.7% in January and factory payrolls grew for the first time since 2007, hinting at a labour market recovery even though the economy lost 20,000 jobs.

The unemployment rate in the euro area edged up from 9.9% in November to 10% in December, its highest since August 1998. The annual rate of consumer-price inflation rose from 0.9% in December to 1% in January, according to a preliminary estimate.

Norway's central bank opted to leave its benchmark interest rate unchanged at 1.75%. (Sources: The Economist, Bloomberg, AEW Europe)

REAL ESTATE MARKET INDICATORS

Emerging Trends: caution and uncertainty reign in 2010 - The outlook for the European real estate industry in 2010 can be characterised as one of cautious optimism coupled with uncertainty according to the annual Emerging Trends in Europe by the Urban Land Institute. The report forecasts another difficult year in which industry players will have to remain 'absolutely diligent' about everything they do. The caution is based on two main factors: the uncertain economic picture, particularly unemployment and its impact on the occupier side of the equation, and banks' strategy on a number of issues including debt.

UK property upturn unsustainable: UK commercial property prices rose 3% in December, their highest monthly rise in 23 years, but the chances of a sustained recovery in 2010 and beyond are unlikely, according to the Ernst & Young ITEM Club. The upturn has been primarily driven by market sentiment, where investors had decided the bottom of the market had been reached. Furthermore, the flood of extra cash and liquidity as a result of the Bank of England's Quantitative Easing (QE) has helped to fund transactions. However, with QE likely to come to an end soon, coupled with the risk to banks of more property companies defaulting on their loans, the recent rise in activity is likely to fall away.

SELECTED OFFICE MARKETS

European occupier markets display signs of cautious optimism: Europe's economies continue to show encouraging signs of economic recovery according to JLL's Q4 2009 European Property Clock. However, the time lag between the wider economy and European office occupier markets remains evident. There are also significant differences between markets in terms of their position in the rental cycle, with certain markets expecting to see prime rental growth in 2010 with others still expecting declines. The European Prime Office Rental Index, which is based on the weighted performance of 24 markets, decreased by 0.8% in Q4 2009 after having seen a similar decline in Q3 2009.

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 ↓	↓	↑
COLOGNE	11.7 ↑	240 ↓	5.60 →	→	↑
PRAGUE	13.7 ↑	228 →	6.59 ↑	↑	N.A.
MADRID	9.3* ↑	336 →	5.67 ↓	↓	↓

*Q3/2009 Source: PMA, CBRE, AEW Europe

SELECTED LOGISTICS MARKETS

US food giant Kraft takes over iconic UK's Cadbury for €13.9bn. The acquisition is likely to have an impact on logistics strategies. The deal illustrates the consolidation trend among FMCG (fast moving consumer goods) giant players. It does suggest that Kraft will be looking to expand its presence worldwide, creating a demand for new FMCG logistics capability in both established and emerging markets. To do that in a very competitive market requires the company to be more cost efficient, global and sophisticated. This suggests many smaller LSPs (logistics service providers) will be squeezed, while the big leading LSPs, such as CEVA and DHL, will potentially benefit. (Source: Transport Intelligence)

According to CBRE, in 2009, the majority of investors in UK logistics focused their attention on defensive stock characterised by long leases to strong covenants, avoiding more risky secondary assets on the back of residual concerns about the underlying health of the occupational market and the lack of available debt for this type of investment. This created a significant level of competition that caused prime yields to trend downwards, resulting in the emergence of a two-tier market in which the yield gap between prime and secondary assets increased to a historic high of 450 basis points.

SELECTED LOGISTIC MARKETS (2009E)						
	PRIME RENTS (€/SQM/YR)	ANNUAL TREND	YIELDS (%)	ANNUAL TREND	2009E TOTAL RETURN (%)	ANNUAL TREND
PARIS	54	↓	8.3	↑↑	-8.1	↑
HAMBURG	66	→	7.3	↑↑	1.1	↑
PRAGUE	52	↓	8.2	↑↑	-17.6	↓↓
MADRID	78	↓↓	7.5	↑↑	-12.5	↓↓

Source : PMA, AEW Europe