

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

Bond Risk Falls to 6-Week Low on Greece and Dubai: The cost to protect against corporate defaults fell to the lowest in more than six weeks as optimism builds that Greece's budget crisis will be contained and Dubai is moving closer to restructuring its debt. Investors are growing less skittish after Greece sold 5 bn Euros of notes last week and passed 4.8 bn Euros of spending cuts, reducing the risk of default. German Chancellor Angela Merkel called the latest measures a "courageous step" and French President Nicolas Sarkozy said the euro region is ready to rescue the country.

Battle Lines Drawn Over CDS In Europe: European governments are pushing forward with a proposal to limit credit default swaps (CDS) on sovereign debt, but it remains to be seen if financial institutions will push back on the measure. The European Commission summoned representatives from banks, hedge funds, credit rating agencies and regulatory bodies to a meeting in Brussels Friday, to discuss the measures needed to rein-in speculation in the derivatives markets.

China's central bank likely to abandon Yen peg to U.S. Dollar: China's central bank chief laid the groundwork for an appreciation of the renminbi at the weekend when he described the current dollar peg as temporary, striking a more emollient tone after months of tough opposition in Beijing to a shift in exchange rate policy. Zhou Xiaochuan, governor of the People's Bank of China, gave the strongest hint yet from a senior official that China would abandon the unofficial dollar peg, in place since mid-2008. He said it was a "special" policy to weather the financial crisis. (Sources: FT, Bloomberg, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0.32	0.65	1.13	1.53	1.89	2.48	3.36	3.78
UK SWAP	0.53	0.64	0.89	0.89	2.28	3.05	3.93	4.22
US FED FUNDS SWAP	0.25	0.25	0.52	1.14	1.72	2.63	3.74	4.50

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0.56	1.41	2.18	2.65	3.17	3.54	3.93
UK GILTS	0.77	2.00	2.92	3.61	4.10	4.53	4.61

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3907	-0.74	54.17	3.65
DOW JONES	10566	1.32	59.44	2.55
FTSE 100	5583	3.14	58.11	3.35
EPRA EUROPE	1269	1.02	74.92	4.23

Source: Bloomberg

NEWS TICKER

The index of activity in America's service industries rose sharply to 53 in February from 50.5 in January. February's figure is the highest since October 2007. A reading above 50 indicates expansion.

A similar index for Britain hit 58.4 in February, its highest level since January 2007. On February 26th the figure for GDP growth in Britain in the three months to the end of December was revised up to 0.3% from an earlier estimate of 0.1%.

Inflation estimate for euro area decreased: An early estimate put inflation in the euro area at 0.9% in February, down from 1% in January. The euro-area unemployment rate remained at 9.9% in January for the third month in a row.

German Industrial Production Increased in January: German industrial production rose in January as energy output surged during the cold winter, helping to offset a collapse in construction activity. Production rose 0.6% from December, when it fell 1%, the Economy Ministry in Berlin said today. Economists had forecast a 1% gain for January, the median of 36 estimates in a Bloomberg News survey shows. From a year earlier, production increased 2.2% when adjusted for the number of work days.

Japan's unemployment rate fell: The number of people registering as jobless was down to 4.9% in January from 5.2% in December. (Sources: The Economist, Bloomberg, AEW Europe)

REAL ESTATE MARKET INDICATORS

RICS: European housing showing signs of recovery: Signs of recovery are visible in some European housing markets, especially in sales levels and prices, says the latest RICS European Housing Review launched in Brussels (2 March 2010). A significant number of European residential markets were starting to revive from spring/summer 2009 and further revival is expected in 2010. Low interest rates and reviving economies helped to avoid housing market meltdown across much of Europe. Consequently, this looks like it is going to be more limited than the last major one in the 1990s. However countries with vulnerable economies will continue to experience depressed markets and falling prices.

Real estate climate perking up again, if at a slowed pace: In February, the King Sturge Real Estate Economy Index, surveyed monthly, resumed its growth course from last year, but did so with a slowed sense of momentum, after climate ratings had briefly dipped at the beginning of the year. The poll-based Real Estate Climate rose by 2.0% in February, from 82.9 to 84.6 index points. This is due above all to the 6.9% growth of the Rental Income Index (74.2 index points in February compared to 69.4 points last month). Irrespective of the enhanced expectations regarding floor space demand and rents, the 8.1% loss of the previous month was not balanced. The Investment Climate, indicator for investment opportunities, checked its upward trend of last year and dropped slightly by 1.9%. (Source: Europe Real Estate, AEW Europe)

SELECTED OFFICE MARKETS

Corporates to boost demand for office space: Cushman & Wakefield is forecasting that demand for office space from corporates is likely to increase again and reduce supply in 2010 as some major economies return to growth. Indeed, the second half of 2010 will be one of recovery and cautious optimism from both landlords and occupiers, the adviser says in its recently released Global Investment Atlas. Last year, Kiev and Dublin were the biggest fallers in Europe with more than -50% and -38% respectively wiped off the value of prime office rents by year-end. In the ranking of the world's most expensive office locations, London's West End moved from third to second place with full occupancy costs of EUR 1,220 per sqm per year. Tokyo moved into first place from second while Hong Kong fell from first to third position. (Source: PropertyEU, 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	↓
BERLIN	10.4	240	5.50	→
PRAGUE	13.7	228	6.59	→
ROME	8.7	370*	5.37	↑

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

SELECTED RETAIL MARKETS

Retailers continue to branch out in United Kingdom: A major new study of expansion activity by multiples in the UK reveals that the number of convenience stores, clothing outlets and catering units in national chain networks increased respectively by 2%, 3% and just under 9% over the 2007 and 2010 period. The growth in branch numbers seen in some retail and catering sectors has however been more than offset by branch losses in service shop-uses; motor-related networks; certain small-unit food, CTN and off-licence traders and bulky goods outlets. (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	0.9	2628	5.8	0.1
GERMANY	0.5*	-0.1*	2856	4.4	0.4
ITALY	-1.7	0.6	2122	5.2	0.8
SPAIN	-5.1	-0.8	2183	5.7	-0.3

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