

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

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CAPITAL MARKET INDICATORS

UK bond yields may rise as investors shun deficits, BOE Says: Bond yields in countries such as the U.K. and the U.S. may rise as investors shun the debt of nations with large trade deficits, the Bank of England said. "To the extent that savers in surplus countries may become more reluctant over time to invest funds in deficit-country government bonds, this would tend to raise the cost of borrowing in deficit countries," the central bank said. "This shift in the relative cost of borrowing could be an important part of the process by which a rebalancing of demand from deficit to surplus countries is achieved over the medium term."

Flow of Funds is bad news for US financial sector - US financial sector to diminish sharply: The Flow of Funds data amply illustrate the credit excesses of the pre-crash years. They also show how difficult and protracted the deleveraging process is likely to be. This is very bad news for the US financial sector.

Fed's assets rise to highest level since may on purchases of mortgage debt The Federal Reserve's balance sheet expanded for a sixth straight week as the central bank purchased housing debt in a program aimed at reducing mortgage rates. (Source: LSR, Bloomberg, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0,37	0,76	1,18	1,70	2,18	2,80	3,57	4,05
UK SWAP	0,50	0,58	0,83	0,83	2,59	3,35	3,98	4,07
US FED FUNDS SWAP	0,18	0,29	0,64	1,35	1,99	2,82	3,67	4,13

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0,68	1,56	2,40	2,93	3,38	3,86	4,18
UK GILTS	0,41	1,69	2,74	3,15	3,74	4,03	4,17

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3796	17,97	-12,22	3,89
DOW JONES	9820	11,89	-13,77	2,87
FTSE 100	5125	15,59	-3,50	3,74
EPRA EUROPE	1267	29,95	-22,27	4,71

Source: Bloomberg

NEWS TICKER

America's current-account deficit narrowed from \$104.5 bn to \$98.8 bn (or 2.8% of GDP) in the second quarter. Consumer prices in America rose by 0.4% in August but were 1.5% lower than they were a year earlier. Much of the monthly rise was the result of a jump in petrol prices. **The value of retail sales surged by 2.7%** in August, caused largely by a sharp increase in car sales, as consumers took advantage of government cash incentives. Stronger output by carmakers helped boost industrial production, which rose by 0.8% in the month.

The rate of consumer-price inflation in Britain fell from 1.8% to 1.6% in August. The unemployment rate rose to 7.9% in the three months to July.

UK house price net balance turns positive according to RICS: The RICS house price net balance turned positive for the first time in two years says the latest RICS UK housing market survey. The net balance rises rather than falls in house prices reached a positive reading of 10.7% from a negative reading of 5.7% – this is the highest result since May 2007 when the net balance was 24.8%.

Inflation in the euro area fell by 0.2% in the year to August, unrevised from a provisional estimate. Finland has the highest harmonised inflation rate in the currency zone, at 1.3%. At the other extreme, prices in Ireland were 2.4% lower than a year earlier. (Source: The Economist, AEW Europe)

REAL ESTATE MARKET INDICATORS

Apartment market: Northern Europe most attractive for investors: The residential rental markets in Sweden, Denmark, France and Germany offer above-average attractiveness for residential property investments by institutional investors. This is the upshot of a report on the European residential property market drawn up by Patrizia. On the other hand, the markets for rented residential property in Lithuania, Hungary, Poland, Estonia and Austria display below-average attractiveness. Urbanization will continue in all European countries until 2050 except for the Baltic, Poland and the Czech Republic, the report says. Patrizia explained that space-saving living forms such as high-rise apartment buildings could therefore undergo a renaissance. They also elucidated that the construction of apartments for rent is shifting more intensively into the focus of politicians and investors due to the inhibiting influence of residential ownership on the flexibility of the labour market.

SELECTED OFFICE MARKETS

Office rents in top German locations falling 9% by 2010 according to DG Hyp: The current autumn study compiled by DG Hyp seated in Hamburg predicts that rent prices for office properties in the top locations of the German property strongholds are going to fall by some 5% this year and by a further 4% in 2010. Above-average setbacks are to be expected in Berlin, Frankfurt and Munich. Even now, potential tenants are being offered numerous incentives in order to prevent even more severe rent reductions. Things are looking somewhat better for retail space. Here, the authors of the study are forecasting 2% to 3% declines this year and one further percent next year in the major property centers. At near-prime locations, on the other hand, a somewhat more negative development is anticipated. The residential property market appears stable. Due to the sharp increase in the number of private households in the big economic centers during the past years, rents will probably go up slightly in 2009 and 2010. (Source: Thomas Daily)

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	↑	↑
MUNICH	8.4	↑	354	↓	5.85	→	↑
BUDAPEST	15.3	↑	186	→	6.79	↑	↑
MADRID	8.0	↑	372	↓	5.89	→	↑

Source: PMA, CBRE, AEW Europe

SELECTED RETAIL MARKETS

Retail deals reach record 35% of total European investment in H1 2009: Despite the decline in total retail investment transactions in the first half of 2009, retail transactions accounted for 35% of total European real estate investment activity, compared to the last five-year average of 26%, according to CBRE. The sector's share of the H1 European market is the highest proportion on record. Despite the generally weaker property investment market in 2009, a number of European countries saw growth in retail investment turnover in H1 compared to the second half of 2008. Italy and France saw the highest growth in activity over that period and accounted for 14% and 11% of the H1 2009 European total respectively. Owner-occupiers have been a significant source of product in both these markets, boosting activity levels, especially in the traditionally tight French retail investment market. The UK market, too, has been very active, with €3.6 billion transacted in H1 2009. The UK market was dominated by local buyers, suggesting that having experienced significant re-pricing it now offers good value.

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	0.5	↓	0.4	↓	2514	↓	5.7	↑	0.1
GERMANY	0.1*	↑	-0.4*	↓	2665	↓	4.8	↑	0.3
ITALY	-2.1	↓	0.1	↓	1937	↓	5.3	↑	0.7
SPAIN	-3.8	↓	-0.4	↓	1924	↓	5.8	↑	-0.2

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