

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@aeweurope.com](mailto:research@aeweurope.com) for subscription information.

**CAPITAL MARKET INDICATORS**

**America's long-term budget outlook has worsened. Not for the last time:** America's budget is on a dangerously unsustainable course. The update, known as the mid-session review, increases the White House estimates of America's cumulative ten-year deficit by almost \$2 trillion, to a new total of \$9.05 trillion. The White House Office of Management and Budget (OMB) expects this year's deficit to be smaller than first predicted: 11.2% of GDP rather than 12.9%. This is largely because money which Mr Obama had expected to use to prop up the banking system will no longer be needed. Federal debt will reach 77% of GDP in 2019, up from 41% in 2008. The problem lies in the longer term. America's public finances show no sign of recovering to anything near a sustainable level in the coming years. The average deficit over the next decade is now expected to be 5.1% of GDP, compared with an average of 4% in the original budget. Even in 2019, the last year of the forecast period and long after the financial crisis, Mr Obama's team expects a deficit of 4% of GDP. (Source: The Economist, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0,33	0,82	1,22	1,76	2,19	2,77	3,46	3,89
UK SWAP	0,51	0,69	0,98	0,98	2,60	3,32	3,92	4,04
US FED FUNDS SWAP	0,18	0,35	0,64	1,35	1,98	2,80	3,65	4,13

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0,58	1,67	2,36	2,86	3,25	3,70	3,98
UK GILTS	0,39	1,78	2,60	2,96	3,56	3,87	4,13

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3665	13,90	-18,24	4,23
DOW JONES	9544	8,75	-17,32	3,02
FTSE 100	4909	10,71	-12,91	3,95
EPRA EUROPE	1201	23,15	-25,36	5,31

Source: Bloomberg

**NEWS TICKER**

**There were fresh signs of life in America's housing market.** The S&P/Case-Shiller index of national house prices rose by 2.9% in the second quarter, the first such increase since the spring of 2006. A timelier gauge of home prices in 20 big cities rose by 1.4% in June. Sales of new homes surged by 9.6% in July. Sales of existing homes leapt by 7.2% that month to their highest level for almost two years. The stock of unsold existing homes also rose sharply in July, as would-be sellers who had sat tight when the market was depressed put their houses up for sale.

**Recovery in the euro-area economy is gaining momentum.** New orders for industrial goods rose by 3.1% in July. A composite gauge of activity in manufacturing and service industries rose in August from 47.0 to 50.0, the highest level for 15 months.

**The index of German business sentiment published by Ifo rose to 90.5 in August from 87.4 in July.** A breakdown of Germany's GDP figures showed that consumer spending rose by 0.7% in the three months to the end of June, the strongest rise since the fourth quarter of 2006.

**Hungary's central bank cut its main interest rate, from 8.5% to 8%, to prop up weak domestic demand.** It said it may cut rates further if that did not pose a threat to inflation or to Hungary's access to financing from abroad. (Source: The Economist, AEW Europe)

**REAL ESTATE MARKET INDICATORS**

**Development completions to peak in 2009 in EMEA office market:** Delivery of many office development schemes which commenced during the real estate boom period will complete in 2009 across markets in Europe, Middle East and Africa (EMEA), leading to greater choice of good quality office space for occupiers in the short term, according to the latest research by CBRE.

**Average deal size tumbles as large lot size deals dry up in European commercial property market:** The average transaction size completed in the European commercial real estate market in the first half of 2009 has fallen by more than half since the peak of the market in 2007, reflecting the extent to which the credit crunch has affected the ability of investors to complete large deals in today's market. The average size of transactions agreed in H1 2009 in Europe fell to €18.4 million, a 59% decline from the €44.4 million average deal size recorded at the peak of the market in H1 2007, according to new research released by CBRE.

**US investors absent from European property market:** One of the most significant changes in the structure of the European commercial real estate market over the last two years has been the withdrawal of US buyers from the market since the credit crunch took hold, according to new research from CBRE.

**SELECTED RETAIL MARKETS**

**Discount and value retailers are expected to remain the focus for 2009 throughout the eurozone as consumer and business sentiment indicators remain low:** With a 1.4% drop in retail trade over the past 12 months this decline is starting to be reflected in marginal rental falls, according to Savills. The report shows both shopping center and retail warehousing rents have started falling since the end of 2008, mainly in markets that have experienced strong growth in recent years such as London, Istanbul, Barcelona and Madrid. Prime rents are on average approximately 6% lower compared to 12 months ago. Paris, Brussels, Amsterdam, Milan, Lisbon and Oslo are all showing relative stability however secondary markets are anticipated to be under pressure. In terms of the investment markets, the report indicates a 55% decline in investment turnover since April 2008. This is due to limited liquidity and the mismatch between buyer and seller expectations on pricing.

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	0.3	↓ 0.7	2514	↓ 5.7	↑ 0.2
GERMANY	-0.2*	↓ -0.1*	2665	↓ 4.8	↑ 0.3
ITALY	-1.4	↓ 0.2	1937	↓ 5.3	↑ 0.8
SPAIN	-3.5	↓ -0.7	1924	↓ 5.8	↑ -0.1

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

**SELECTED RESIDENTIAL MARKETS**

**The US housing market is currently torn between upbeat demand and downbeat supply, according to Lombard Street Research (LSR):** On the demand side, falling prices in combination with ultra-low interest rates have pushed affordability to record-high levels. Existing homes sales increased by 7.2% in July, registering a fourth monthly rise. Today's new homes sales showed a jump of 9.6% in July. But rising unemployment is likely to dampen some of the ardour of the demand side. On the supply side, the overhang of unsold homes remains large, both with regards to new homes and for existing homes. But there has been a rise in housing starts in building permits over the summer. The US housing market has probably reached the bottom - four years after it peaked, but the tug-of-war between upbeat demand and downbeat supply is likely to lead to volatile housing over the near future. LSR expects further repossession depressing house prices in coming months.

APARTMENT PRICES IN PARIS (Q1/2009)			RENT INDEXATION IN FRANCE (Q1/2009)	
AVERAGE PRICE (€/SQM)	QUARTERLY CHANGE (%)	YOY CHANGE (%)	RESIDENTIAL PROPERTY INDEX IRL (YOY%) (Q2/2009)	COMMERCIAL PROPERTY INDEX ICC (YOY%)
6,360	-2.1	-1.0	1.31	0.40

Sources: Chambre des Notaires de Paris, INSEE, AEW Europe