

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 for subscription information.

CAPITAL MARKET INDICATORS

The OECD notes the "mostly favourable" economic news over the past few months in an update of its growth forecasts for big and rich economies. OECD reckons German economy will grow more quickly than its peers in Q3. America's GDP is expected to grow at an annualised rate of 2.4% in Q4. The outlook looks less rosy for Japan, Italy and Britain, which are all forecast to endure further declines in GDP before end 2009.

US job losses still severe – will Q3 GDP be up? Recovery in treasuries has a way to go: By past standards, current rates of job loss are consistent with strong recession. This time it may be different, but unusually tough cost cutting erodes consumer incomes. Buoyant car sales could be met out of inventory rather than a major step-up of output. Inventory ratios do not argue for a rapid output snap-back.

Euroland chooses deflation - Euro area bond yields to fall: Euro area producer prices are falling at record paces. While partly due to lower oil prices, the underlying rate, i.e., excluding energy, is also plummeting. Many Euro area countries have excessive cost levels. In the absence of devaluation, they must deflate. But, ultimately, devaluation (involving the entire euro area, of course) is a more attractive solution.

Poland leads on strong domestic economy - Zloty to strengthen against the forint: Poland stands out as one of the few countries internationally to grow from Q1 to Q2 without a boost from net exports. Slovakia is at the other end of the spectrum, reliant on car exports to generate growth. Hungary remains the only CEE in technical recession, with monetary policy stimulus arriving too late for a recovery in 2010. (Source: LSR, The Economist, AEW Europe)

was one of the largest outsourcing contracts. More than 2,000 employees transferred to DHL from KarstadtQuelle. (Source: Reuters)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0,33	0,80	1,15	1,66	2,11	2,71	3,45	3,93
UK SWAP	0,50	0,66	0,93	0,93	2,56	3,28	3,93	4,05
US FED FUNDS SWAP	0,16	0,31	0,60	1,27	1,89	2,73	3,63	4,19

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0,53	1,54	2,29	2,82	3,24	3,76	4,06
UK GILTS	0,38	1,73	2,64	3,03	3,61	3,99	4,15

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3648	13,37	-13,06	4,22
DOW JONES	9441	7,58	-15,86	3,00
FTSE 100	4927	11,12	-5,98	3,90
EPRA EUROPE	1210	24,12	-21,75	5,09

Source: Bloomberg

NEWS TICKER

American manufacturing expanded in August for the first time in 19 months, according to the Institute for Supply Management. Its main indicator rose by four points, to 52.9, the first time since January 2008 it has been above the reading of 50 that separates rising from falling activity. New orders for factory goods rose by 1.3% in July. The National Association of Realtors' index of pending home sales rose by 3.2% in July and was 12% higher than a year earlier. Americans' personal incomes were flat in July, but their consumption rose by 0.2%.

Britain's GDP fell by 0.7% in the second quarter, revised up from an earlier estimate of a 0.8% decline.

Consumer prices in the euro area fell by 0.2% in the year to August, according to a provisional estimate. The euro zone's GDP rose by 0.1% in the second quarter, unrevised from an initial estimate. The unemployment rate edged up in July by 0.1 percentage points to 9.5%.

Industrial production in Japan rose by 1.9% in July. Although this was the fifth straight monthly increase, output was still almost 23% lower than a year earlier. (Source: The Economist, AEW Europe)

REAL ESTATE MARKET INDICATORS

EPRA NAV data shows £4.3 bn UK property recapitalization stabilizing market: The estimated £4.3 bn (€5 bn) in new equity that has been pumped into the UK listed property sector via rights issues and share placings in the past 10 months appears to be having a strong stabilizing influence on the market, new Net Asset Value (NAV) research data from the European Public Real Estate Association (EPRA) indicates.

Retail real estate investment up 85% in continental Europe in Q2/2009 according to JLL: Direct retail real estate investment in Continental Europe was up by 85% in the second quarter 2009, compared to the first quarter of the year, according to new research from Jones Lang LaSalle.

Investment stabilizes in Europe and some markets see yield gaps widen according to Savills: Savills European 'Quarterly data bulletin', which examines office, retail and industrial sectors, finds the average yield gap between prime and secondary office properties in the CBD, which narrowed down to almost 60 basis points during the peak of the market, has now widened again to around 85 basis points at end Q2/2009, back to mid 2006 levels.

SELECTED OFFICE MARKETS

JLL's European Prime Office Rental Index based on the performance of 24 markets decreased by 4.6% over the quarter leading to prime rents standing on average 15.4% lower than one year ago. Rental decreases have been recorded in the majority of European markets led again by Moscow with headline rental falls of 30% over the last three months, followed by Dublin (-18%) and Madrid (-10%). London and Moscow have now reached the peak of rental decline. After a particularly slow first quarter, take-up in Q2/09 increased in the CEE markets where leasing volumes reached 0.6 mil m² in Q2 and now stand 14% above the 5-year average. Increases over the quarter were also reported in Brussels (+51%), Madrid (+46%), London (+43%), Hamburg (+27%) and Munich (+10%). However, seven markets saw declines in leasing activity led by Rotterdam (-73%), Frankfurt (-44%) and Dusseldorf (-30%) and Amsterdam (-23%).

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 ↑	753 ↓	6.15 ↓	↑
MUNICH	8.4 ↑	354 ↓	5.25 →	↑
PRAGUE	11.7 ↑	234 ↓	6.36 →	N.A.
MILAN	10.6 ↑	480 ↓	5.51 →	↑

Source: PMA, CBRE, AEW Europe

SELECTED LOGISTICS MARKETS

DHL suffers as Karstadt crumbles. Deutsche Post DHL has been hit hard in its domestic market by Arcandor's bankruptcy (owner of the department store and mail order business Karstadt). A DHL spokesman, stated that the company would lose 560 jobs due to the collapse of the mail order business, although the implications of the closure of the Karstadt retailing operation was not mentioned. DHL was heavily exposed to the group. In 2005 what is now DHL Supply Chain won the contract for the provision of both Karstadt transport and warehousing activities. In a deal estimated by DHL to be worth €500m p.a., the company assumed responsibility for retail store logistics and mail order distribution activities. At the time the contract

SELECTED LOGISTIC MARKETS (2009E)						
	PRIME RENTS (€/SQM/YR)	ANNUAL TREND	YIELDS (%)	ANNUAL TREND	2009E TOTAL RETURN (%)	ANNUAL TREND
PARIS	50	↓	8.0	↑↑	-11.2	↑
MUNICH	66	↓	7.7	↑↑	-9.6	↓
PRAGUE	55	↓	8.2	↑↑	-12.7	↓↓
MILAN	57	↓	7.3	↑↑	-12.2	↓↓

Source : PMA, AEW Europe

