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Mahdi Mokrane : +33 1 78 40 92 60
Marc Langenbach : +33 1 78 40 92 62

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

France and Germany drift out of recession. The rest of Europe is stuck in the doldrums: At last, a fairer wind. Figures released on Thursday August 13th showed that the euro area's GDP shrank by just 0.1% in the three months to the end of June, far less than the 2.5% slump in the previous quarter. The near stability was the result of an early exit from recession in the region's two largest economies. The economies of both France and Germany grew by 0.3% in the quarter, surprising analysts who had expected the figures to show small contractions in output for both. Germany and France have started moving again for similar reasons. Consumer spending picked up, helped by government subsidies for car sales. Foreign trade also helped. In France it added 0.9 percentage points to GDP, accounting for all and more of the growth in the quarter; in Germany exports fell but by less than imports, so the overall contribution of trade was positive. Firms were still running down stocks in both France and Germany. That augurs well for recovery, at least in the near term. As confidence strengthens businesses will restock, which should further fill the sails of the economy in the current quarter. Orders for German manufacturers are picking up, helped in part by China's state-sponsored investment boom. These signs of movement are particularly welcome in Germany, which has been among the hardest hit of the big rich countries. Even after the better news of the second quarter, its GDP is still more than 6% below the level reached at the beginning of 2008. The French economy has been more resilient: at its nadir it was down by "only" 3.4% from its peak. The worry now is the outlook for the euro zone's next largest countries, Italy and Spain. (Source: The Economist, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0,34	0,87	1,25	1,80	2,25	2,81	3,51	3,91
UK SWAP	0,53	0,77	1,02	1,02	2,73	3,49	4,10	4,18
US FED FUNDS SWAP	0,15	0,43	0,73	1,42	2,03	2,83	3,72	4,22

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0,64	1,70	2,44	2,93	3,30	3,76	4,01
UK GILTS	0,31	1,89	2,83	3,15	3,65	4,02	4,18

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3434	6,72	-22,89	4,32
DOW JONES	9321	6,21	-20,06	3,04
FTSE 100	4642	4,69	-14,90	4,36
EPRA EUROPE	1157	18,63	-28,39	5,56

Source: Bloomberg

NEWS TICKER

Hopes for economic recovery in America were raised by July's jobs-market figures. The unemployment rate edged down to 9.4%, from 9.5% in June. American employers, excluding farms, cut 247,000 workers from their payrolls, the smallest monthly jobs loss since August 2008.

T**he unemployment rate in Britain rose from 7.1% to 7.8%** in the three months to June. A timelier measure suggests that jobs are being lost at a slower rate. The number claiming unemployment benefit rose by 24,900 in July, compared with an average monthly rise of 93,400 in the first quarter.

The Euro-area economy may also have reached bottom. GDP in the 16-nation currency zone fell by 0.1% in the three months to the end of June, after a 2.5% drop in the first quarter. France and Germany are already recovering. Germany's GDP rose by 0.3% in the quarter; France's GDP also rose by 0.3%. Most of the region's other economies were still struggling. GDP in the Netherlands sank by 0.9% in the second quarter, Austria's GDP fell by 0.4% and Italy's by 0.5%.

China's economy continued to race ahead. Industrial production rose by 10.8% in the year to July, slightly stronger than the rate in June. The value of retail sales rose by 15.2% from a year earlier; passenger-car sales were up 70.5% from last July. China's rapid recovery has not yet fuelled inflation. Consumer prices fell by 1.8% in the year to July. (Source: The Economist, AEW Europe)

REAL ESTATE MARKET INDICATORS

Rents are falling across European property markets; yields stabilizing in some markets: Weak economic conditions across Europe continued to subdue rents across all property sectors in the second quarter (Q2) of this year, according to CB Richard Ellis' latest review of rents and yields in Europe. Economists' short-term expectations of activity in most European markets have weakened further in recent months, and this is reflected in occupier market conditions and rental movements.

Investment sentiment showing signs of improvement in UK commercial property. Two recent statements by Invista Real Estate Investment Management and PruPim point to a noticeable thawing in the near-term outlook for UK Commercial Property, driven by improved economic sentiment and evidence of buyers re-entering the market. In particular, overseas investors are seeking prime, well located, long-let properties. A number of observers now predict that the worst of the commercial property downturn is now drawing to a close. Yields are now beginning to stabilise and now appear 'cheap' to medium term property investors.

Improvements underpinned by a lack of supply in UK's housing market: Sentiment in the housing market continues to improve according to the latest RICS UK housing market survey. Significantly, 8% more chartered surveyors expect prices to rise rather than fall over the next three months, the highest reading for this series since April 2007.

SELECTED OFFICE MARKETS

Prime office yields hold in major markets: European office market yield decompression continues to stabilize with yields in many markets holding according to Jones Lang LaSalle's Q2 2009 European Office Yields Tracker.

Rising vacancy puts downward pressure on Europe's office rents: According Jones Lang LaSalle's Q2 2009 European Office Clock Report prime office rents declined by 4.6% over the quarter, and now stand on average 15.4% lower then Q2 2008. The Index, which is based on 24 markets, shows that Moscow witnessed headline rental falls of 30%, followed by Dublin (-18%) and Madrid (-10%) over the quarter.

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	↓	5.25	→	↑
PRAGUE	11.7	↑	234	↓	6.36	→	N.A.
MILAN	9.5*	↑	480	↓	5.51	→	↑

*Q1/2009 Source: PMA, CBRE, AEW Europe

SELECTED RETAIL MARKETS

Escada bailout fails, insolvency to follow: The Escada fashions concern is about to go bust. The firm announced that it will probably file for insolvency before the end of the week due to threatening inability to meet obligations in the immediate future. It added that only 46% of the bond holders accepted the €200mn offer to exchange the firm's certificates. The necessary minimum acceptance quota of 80% was thus not attained. As a result, the planned €29.05mn capital raise with options to buy will not be conducted, Escada reported. Today, the management board is going to inform the supervisory board about the failure of the financial restructuring and of the further steps to be taken. The exchange offer had asked the investors to waive some 60% of the value of their investments in order to contribute to Escada's debt relief. According to its own statement, Escada has 182 shops that it operates on its own worldwide and another 225 stores managed by franchisees.

(Source: Thomas Daily, 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	0.3	↓	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