

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

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## CAPITAL MARKET INDICATORS

**ECB calls for more clarity in bond market.** ECB officials believe a large part of the collapse of the ABS markets was because investors lacked enough data to understand the loans underlying their bonds. The market simply froze amid fears their bonds exposed them to the collapse of the US subprime market – though they were unable to verify this. Proposals outlined a system of standardised templates for all deals and a “data-handling infrastructure” through which data would be made available to investors.

**European stocks push to 15-month highs.** European equity markets were broadly higher on Monday as investors made the best of thin trading conditions to extend the end-of-year rally which has pushed global stocks to within a fraction of year highs. Industrial heavyweights were at the top of the leaderboard on the FTSE Eurofirst 300, with investors forced to adopt a cautious approach in the absence of trade in London and opting to play defensively. Meanwhile, Germany’s Xetra Dax index pushed above 6,000 for the first time since September 2008.

**Concerns grow over sovereign debt risk.** Sovereign debt risk is emerging as an important concern for senior bankers, risk consultants and auditors following financial woes in Dubai and Greece. After two years of worrying about mortgage and corporate risk, attention is now shifting to managing the risk of country defaults and bankruptcies of heavily indebted regional governments and city administrations, say bankers. (Sources: FT, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0.30	0.71	1.26	1.77	2.17	2.76	3.57	3.93
UK SWAP	0.51	0.60	0.94	0.94	2.56	3.31	4.05	4.20
US FED FUNDS SWAP	0.13	0.25	0.63	1.36	2.01	2.95	4.00	4.58

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0.76	1.56	2.36	2.94	3.35	3.78	4.08
UK GILTS	0.66	1.80	2.78	3.42	4.00	4.44	4.43

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3944	22.57	26.57	3.62
DOW JONES	10520	19.87	24.23	2.60
FTSE 100	5402	21.84	28.12	3.45
EPRA EUROPE	1221	25.24	25.31	4.53

Source: Bloomberg

## NEWS TICKER

**EU car dealers to lose competition benefits.** Hard-hit car dealerships are set to lose the benefit of special rules governing distribution arrangements in the motor industry, and will be subject to normal competition concerns from 2013.

**US jobless claims fall to 15-month low.** The number US workers claiming jobless benefits fell to the lowest level in more than a year last week in a sign that the labour market is slowly starting to catch up with the rest of the economic recovery.

The US commerce department figures showed that **orders for durable goods ticked up in November** as companies started to set the stage for greater capital investment next year.

**Britain’s business leaders are more optimistic about the UK economy improving** than at any point in the past six years, according to an annual survey of captains of industry. In the yearly Ipsos Mori Captains of Industry poll of 100 company bosses, 36 per cent thought that the economic situation would improve, compared with just 4 per cent last year. (Sources: FT, AEW Europe)

## REAL ESTATE MARKET INDICATORS

**Listed companies gravitate towards shopping centres.** In order to pay off debt, UK listed firms have issued new shares, and sold offices, and are looking instead at high-quality retail assets in the UK and the Continent, especially France. After having participated in capital rights issues, a number of the UK listed sector’s bigger players have been selling assets in an effort to de-leverage. These moves have prompted a debate over the merits of London offices and European retail.

**Expansion chances limited for overleveraged firms.** High loan-to-value ratios, scarce credit and looming repayments could curtail acquisitions. Most of Europe’s listed sector is now leveraged at less than 60%, a level widely viewed by analysts as safer and more acceptable and lower than the 10-year average loan-to-value (LTV) ratio of 80% in the UK. But the listed sector is diverse and there are exceptions. Also, it is probable that some European companies will report rising LTV ratios in 2010.

**Mixed reviews for Spain’s recently unveiled REIT.** Spanish Law 11/2009 enabled the SOCIMI in late October this year. But the vehicle is unlikely to revitalise real estate until 2011 when the economic climate is expected to be better. The Spanish government is known to be less keen on tax exemption, which may explain many observers’ lack of enthusiasm for SOCIMIs.

(Sources: EuroProperty, AEW Europe)

## SELECTED RETAIL MARKETS

**For 2010, Cushman & Wakefield forecasts a more positive outlook for retail markets.** Availability of secondary space should increase as consolidation and closures continue. Other conclusions include: a re-balancing in power between landlord and tenant for prime – but with tenants still having the upper hand for much of the year; a bottoming out in rental falls by mid-year, but with further weakness for poorer retail assets and no sustained rental growth before 2011.

Occupier activity should improve as retailers seek to benefit from cheaper space on the back of lower rents, although a number of key markets have not seen significant falls in prime rents. Whilst there remains an over-hang of shopping centre supply in parts of Eastern Europe, new shopping centre development has slowed in most markets which should reduce the pressure on landlords. (Source: Cushman & Wakefield, 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	0.6	↑ 0.6	2628	↓ 5.8	↑ 0.1
GERMANY	0.6*	↑ -0.1*	2764	↓ 4.7	↑ 0.3
ITALY	-2.0	↓ 0.2	1998	↓ 5.2	↑ 0.8
SPAIN	-4.7	↓ -0.8	2182	↓ 5.7	↑ -0.1

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

## SELECTED LOGISTICS MARKETS

Unconfirmed reports have appeared in the French press suggesting that **Deutsche Post-DHL has agreed to sell its French domestic DHL Express business** to the French investment company Caravelle. According to various reports, the deal has yet to be formally approved by the DP-DHL management board. The value of the deal is also unclear with suggestions that Caravelle plans to pay between \$200m and \$300m for DHL France. Deutsche-Post DHL has, as yet, made no statement.

DHL Express in France is believed to be experiencing continuing losses at its French business, possibly running into tens of millions of euros per year. Problems in France are not unique, with other Express business suffering problems in the past, such as TNT which sold its road freight business there in 2005. (Source: Transport Intelligence)

SELECTED LOGISTIC MARKETS (2009E)	PRIME RENTS (€/SQM/YR)	ANNUAL TREND	YIELDS (%)	ANNUAL TREND	2009E TOTAL RETURN (%)	ANNUAL TREND
PARIS	53	↓	8.3	↑↑	-9.7	↑
MUNICH	65	↓	7.5	↑	-3.3	↑
PRAGUE	55	↓	8.4	↑↑	-15.4	↓
BARCELONA	57	↓	7.6	↑	-14.3	↓↓

Source : PMA, AEW Europe