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Research & Strategy

European Real Estate Weekly Monitoring Page

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CAPITAL MARKET INDICATORS

Is it a U, V or W for recovery? The good news for the big economies in recent months gives hope: The first step in any recovery is for **output to stop shrinking**. But the more interesting question is what shape the recovery will take. The debate centres around three scenarios: "V", "U" and "W". A V-shaped recovery would be vigorous, as pent-up demand is unleashed. A U-shaped one would be feebler and flatter. And in a W-shape, growth would return for a few quarters, only to peter out once more. Optimists argue that the **scale of the downturn augurs for a strong rebound.** America's deepest post-war recessions, they point out, were followed by vigorous recoveries. In the two years after the slump of 1981-82, for instance, output soared at an average annual rate of almost 6%; and this time round, output has slumped even further, and for longer, than it did in the early 1980s.

Pessimists, meanwhile, think t**his downturn's origins favour a weak recovery or a double-dip**. Unlike typical post-war recessions this slump was spawned by a financial bust, not high interest rates, and when over indebted borrowers need to rebuild their balance-sheets and financial systems need repair, growth can be weak and easily derailed for years. Japan's 1990s banking crisis left the economy stagnant for a decade; a premature tax increase in 1997 plunged it back into recession. (Source: The Economist, AEW Europe)

Interest Rates (%)	Day/Day *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
Euro Swap	0.34	0.84	1.28	1.87	2.31	2.85	3.53	3.92
UK Swap	0.52	0.72	1.02	1.02	2.74	3.49	4.07	4.15
US FED Funds Swap	0.15	0.39	0.73	1.51	2.16	2.97	3.81	4.26

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

Bond Yields (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
Bundesbank Germany	0.64	1.77	2.47	2.96	3.32	3.75	4.01
UK Gilts	0.38	1.82	2.73	3.05	3.64	3.98	4.18

Source: Bloomberg

Equity Markets	Current	% Change YTD	% Change 52 WK	% Div Yields
CAC 40	3641	13.14	-17.26	4.08
Dow Jones	9506	8.31	-18.25	3.05
FTSE 100	4883	10.11	-11.32	3.99
EPRA Europe	1188	21.81	-25.65	5.50

Source: Bloomberg

NEWS TICKER

Industrial production in America rose by 0.5% in July compared with June, after a surge in the output of cars and car parts. The housing market was less buoyant. Private housing starts fell by 1% in July. The number of permits to build new homes fell by 1.8%.

Britain's inflation rate was steady at 1.8% in July. In much of the rest of the world consumer prices have fallen in the past year. America's were unchanged in July, leaving them 2.1% lower than in July 2008. In the euro area, consumer prices fell 0.7% in the year to July, revised from an initial estimate of a 0.6% decline. Canada's price index in July was 0.9% lower than a year earlier. And in Malaysia consumer prices fell by 2.4% in the year to July.

Japan's GDP grew by 0.9% in the three months to the end of June, an annualised rate of 3.7%. Stronger exports and a rise in consumer spending more than offset weakness in housing and business investment. (Source: The Economist, AEW Europe)

REAL ESTATE MARKET INDICATORS

RICS poll - More distressed sales worldwide: The number of distressed property sales has increased worldwide. In 75% of the 27 countries surveyed, the number of distressed properties put on the market went up during Q2. South Africa is at the top of the list of countries showing the largest increase, followed by the US and New Zealand. There was little change in Germany, Czech Rep., Hong Kong, Japan, Italy and Switzerland. **Germany is among the favourite target countries** for funds specializing in opportunities created by the crisis. **Bargain hunters** are also setting their sights on Italy, GB, the US, Hungary, Spain and Ireland.

Property stocks, broader markets end week on high note. European property stocks followed the broader markets higher Friday, Aug. 21. The FTSE EPRA NAREIT UK real estate index rose 0.88% to 1,079, and the FTSE EPRA NAREIT Euro Zone property index climbed 1.83% to end at 1,445. The broader European equity markets benefited from better than expected news on both sides of the Atlantic (U.S. existing-home sales, German services and French manufacturing).

SELECTED OFFICE MARKETS

Largest Office Letting Transaction in the History of Glasgow. IVG Immobilien AG let its Broadway One office building in Glasgow, U.K., to Tesco Personal Finance for 20 years. The 12,000 sqm building, which was completed in May at a total investment cost of £51.5 million will house Tesco Personal Finance's new customer service center by mid-2010. The company called the deal the single largest letting transaction in the history of Glasgow.

Take-up of office space in Frankfurt in the first half of 2009 of 218,500 sq m, despite being 16% below the previous year's result, surpassed the half year results for the years 2006 and 2007 by 36% and 25% respectively. Absolute vacancy (excluding space available to sublet) in Frankfurt rose by 4% to 1.3 million sq m and the vacancy rate by 0.5 percentage points to 11.3%. The achievable prime rent of 456 €/sq m/year remained stable.

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	↑	↓
Dusseldorf	10.0	↑	264	↓	5.50	↑	↑
Warsaw	7.4	↑	288	↓	6.39	↑	↑
Milan	9.5*	↑	480	↓	5.51	↑	↑

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

SELECTED RETAIL MARKETS

Deutsche Post: 475 branches to be closed by 2011: Deutsche Post AG (German Mail) is sticking to its cost reduction strategy of giving up its branch network. By the end of 2011, the remaining 475 branches operated by Deutsche Post nationwide are to be closed. The services rendered by these branches are then to be taken over by partners such as retailers. This way, according to a spokesperson, Deutsche Post hopes to attain significant savings in rent and personnel costs.

Edeka: Interest in Woolworth, Hertie and Karstadt locations. The Edeka grocery chain has announced interest in taking over the locations of department stores operated by the Woolworth, Hertie and Karstadt chains. According to Die Welt Edeka is interested in 80 Woolworth branches. As for Hertie, Edeka can imagine taking over a "two-digit number of buildings." Edeka also wants to move into Karstadt locations providing space to independent merchants. If these moves prove to be successful, they would bring Edeka into **direct competition with Rewe**, which now occupies floor space in the grocery departments of some Karstadt department stores.

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

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