

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@aweurope.com for subscription information.

CAPITAL MARKET INDICATORS

Sales of dollar junk bonds hit record: Sales of dollar junk bonds have hit all-time high levels in 2009, as issuers rush to tap strong global investor demand after a year in which the asset class has produced record returns. Total issuance so far this year of high-yield bonds, commonly known as junk, last week topped \$144bn (£89bn), passing the previous high of \$143bn reached in 2006, according to Dealogic. This marks a big reversal from last year, when investors shunned this corner of the credit markets

Steep yield curve could entice buyers: A key relationship between US government bond market yields entered the record books this week, and could be a long-term "buy" signal for equity investors. The Treasury yield curve, which measures the difference between short and long-term interest rates and is a barometer of expectations about the economy, inflation and Federal Reserve policy, has become steeper than at any point in its history. A steep yield curve – denoting much higher yields on longer dated bonds – arises whenever the Fed cuts interest rates, and feeds expectations that the economy will soon start growing quickly.

Property derivatives enter new stage: The largest series of derivatives trades on different types of UK property has been completed as fund managers have moved to open up the still nascent market to more targeted investment strategies. Prupim, the real estate investment management arm of Prudential, this week completed £100m of trades of UK property derivatives with Royal Bank of Scotland taking long and short positions on various sectors. (Sources: LSR, FT, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0,34	0,71	1,22	1,67	2,06	2,62	3,43	3,78
UK SWAP	0,51	0,60	0,92	0,92	2,43	3,17	3,92	4,09
US FED FUNDS SWAP	0,15	0,25	0,54	1,17	1,79	2,71	3,74	4,35

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0,73	1,46	2,18	2,76	3,16	3,62	3,91
UK GILTS	0,59	1,65	2,62	3,25	3,83	4,28	4,27

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3836	19,21	18,92	3,73
DOW JONES	10329	17,69	20,40	2,69
FTSE 100	5261	18,65	22,72	3,56
EPRA EUROPE	1217	24,77	25,14	4,69

Source: Bloomberg

NEWS TICKER

Oil demand recovery to be sluggish: Oil prices will remain trapped in the \$70-\$80 a barrel range in the first half of 2010 as demand recovers more slowly than expected, according to the world's top oil trading houses.

Unemployment in Britain rose by 21,000 in the three months to October, the smallest increase since May 2008: The number claiming unemployment benefits fell in November for the first time since February 2008, by 6,300. Consumer prices in Britain rose by 1.9% in the year to November, exceeding the 1.5% increase in the year to October.

Industrial production in the euro area fell by 0.6% in October and was 11.1% lower than in October 2008. The euro area's annual inflation rate was 0.5% in November, revised from a provisional estimate of 0.6%. Greece had the highest inflation rate in the currency zone, at 2%. In Ireland, by contrast, prices fell by 5.7% in the year to November.

Norway's central bank raised its benchmark interest rate by 0.25 percentage points to 1.75%, the second such increase in three months. Sweden left its main policy rate unchanged at 0.25%.

(Sources: Bloomberg, The Economist, AEW Europe)

REAL ESTATE MARKET INDICATORS

According to Banque de France, **conditions in euro area commercial property markets have deteriorated further during the past six months.** Income risks have increased for all types of commercial property companies as both prices and rents have fallen. The possibility of prices falling to levels below original purchase prices is mainly a concern for loan-financed investors as a large stock of commercial property loans are due to be refinanced in the coming years.

In addition, elevated tenant default rates in the period ahead and the continued weakness of the euro area labour market are also likely to keep demand for rented property muted. As a result, and despite better macroeconomic outcomes than those expected six months ago, as well as improvements in the macroeconomic outlook, some forecasters expect continued decreases in capital values and rents throughout 2009 and 2010.

Funding costs and risks for commercial property investors have remained relatively high over the past six months. Although commercial property investors have, to some extent, benefited from low interest rates, banks continue to apply more conservative lending standards – including lower loan-to-value ratios – and higher margins for commercial property loans

SELECTED RETAIL MARKETS

Following the success of its flagship store, opened in September in the Hausmann district in Paris, the **Japanese textile chain Uniqlo**, owned by the Fast Retailing group, is **considering further openings in the French capital.** The group, that had given itself a year to learn from its Parisian installation, has now already begun to look for 5 or 6 other locations in the capital, to set up stores of at least 2,000 m². The next opening could come in the autumn of 2010.

This speeding up is due to a pertinent fact: the Parisian store has achieved the biggest sales of the group worldwide, ahead of the New York store, opened 3 years ago and 50% larger. And the Paris store, which the group anticipated would make losses for at least a year, will finally be profitable during its very first year. (Source: Natixis Securities Retail News)

SELECTED OFFICE MARKETS

Major European markets stabilise ahead of expectation: European capital city rent indices are indicating stabilisation across all sectors, according to DTZ. The Retail and Industrial sectors are returning positive growth figures of 0.4% and 0.13% respectively for Q4 2009, and office markets are expected to turn positive in Q1 2010. This is a result of general stabilisation across the board with some markets returning small levels of growth as a result of over-correction.

Commercial property rents in the euro area declined by almost 13%, year on year, for office space and by about 3% for retail space in the third quarter of 2009. However, developments across countries were heterogeneous, with rents in some countries falling by up to 30%, year on year. At the same time, office vacancy rates rose to an average of 10% in the third quarter of 2009. (Source: Banque de France)

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 OFFICE MARKETS (Q3/2009 DATA)	VACANCY RATE (%)	PRIME RENT (€/SQM/YR)	PRIME NET YIELDS (%)	BUSINESS CONFIDENCE
PARIS (CBD)	5.5	↑ 644	→ 5.80	→
LONDON (CENTRAL)	11.0	↓ 773	↓ 5.89	↓
FRANKFURT	17.4	↑ 396	↓ 5.50	→
WARSAW	8.9	↑ 276	↓ 6.39	→
MILAN	11.0	↑ 450	↓ 5.51	→

Source: PMA, CBRE, AEW Europe