

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

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## CAPITAL MARKET INDICATORS

**Bernanke says better regulation would have curbed U.S. housing market boom:** Federal Reserve Chairman Ben S. Bernanke said low central bank interest rates didn't cause the housing bubble of the past decade and that better regulation would have been more effective in curbing the boom.

**China's liquidity squeeze to hit world markets:** China's GDP had rebounded to trend level by 2009 Q3, and is growing at an annual rate over 20%. Overheating has already led to significant CPI inflation. PBoC Governor Zhou today pre-figured the inevitable monetary tightening (with a rising yuan/\$ likely some time next year). This will take away the world's only major source of liquidity growth. The correlated risk-asset "dead-cat bounce" now looks finished.

**Broad consensus that UK house prices are too high:** Britain's leading economists are almost unanimous in their view that house prices are still too high. Of the 70 who answered the question, 13 believed residential property prices were now fairly valued, while 55 said they were not and two did not express a view. The judgment that the housing market remains overinflated sits uncomfortably alongside extensive evidence that prices are rising rapidly. But the general view is that the recent surge in prices reflects low interest rates and low levels of supply - a situation that cannot last for long. House prices are also likely to be hit by weak income growth and still weak bank lending, economists argue. (Sources: FT, LSR, Bloomberg, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0.41	0.70	1.31	1.86	2.26	2.80	3.58	3.93
UK SWAP	0.51	0.61	1.00	1.00	2.60	3.32	4.03	4.15
US FED FUNDS SWAP	0.14	0.25	0.65	1.38	2.02	2.94	3.94	4.52

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0.79	1.65	2.42	2.98	3.38	3.79	4.07
UK GILTS	0.77	1.78	2.76	3.38	3.94	4.37	4.35

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3996	1.51	24.17	3.58
DOW JONES	10572	1.38	20.46	2.61
FTSE 100	5471	1.07	23.38	3.40
EPRA EUROPE	1261	0.34	29.29	4.42

Source: Bloomberg

## NEWS TICKER

**The S&P/Case-Shiller index of home prices in ten big American cities was unchanged in October, leaving it 6.4% lower than a year earlier.** Before stalling in October, prices had edged up in each of the previous five months. New home sales fell by 11.3% in November but existing home sales rose by 7.4%.

**Consumer confidence in America increased in December,** according to the measure published by the Conference Board, a research firm. Its index rose from 50.6 to 52.9. America's GDP growth was revised down for a second time. The economy is now thought to have grown at an annualised rate of 2.2% in the third quarter, less than the previous estimate of 2.8%.

**UK Manufacturing, Mortgage Approvals Jump as Election Campaign Starts** UK manufacturing activity increased to the strongest in more than two years, and mortgage approvals rose to the highest since March 2008, adding to evidence the economy is emerging from recession.

**Business confidence in Italy rose to its highest for more than a year in December.** The ISAE Institute's manufacturing-sentiment index rose to 82.6, from a revised reading of 79.4 in November. (Sources: The Economist, AEW Europe)

## REAL ESTATE MARKET INDICATORS

**Direct investment in commercial real estate in Europe nearly €70 billion in 2009:** Direct commercial real estate investment in Europe will reach close to €70 billion in 2009, according to new research from Jones Lang LaSalle. The fourth quarter 2009 will be the third consecutive quarter of increasing volumes and also the strongest quarter of the year, with almost €25 billion transacted. However, despite the increase in transactional activity throughout the year, full year volumes are down 40% on 2008.

**CEE property investment turnover slowly increases:** Commercial property investment activity in Central and Eastern Europe (CEE) continued to increase slowly in October and November 2009, totalling a provisional €432 million in 11 transactions, according to the December edition of CB Richard Ellis' CEE Property Investment MarketView. Year-to-date investment turnover for the region stands at just under €1.5 billion. Despite this somewhat higher level of recent activity, 2009 turnover as a whole will still finish at c. 80-85% below total 2008 turnover. (Sources: EuroProperty, AEW Europe)

## SELECTED OFFICE MARKETS

**HSBC sells Paris HQ for €400m:** HSBC France has sold its head office buildings on the Champs-Élysées and Rue Vernet in Paris in a €400m sale-and-leaseback transaction with private investors represented by French Properties Management. The transaction is expected to complete in the first quarter of 2010.

**German Office market - Space take-up in top 7 cities reduced by 29%:** Approximately 2.3mn sqm were leased in the seven biggest German office locations in 2009, the brokers' association DIP reported. Only Stuttgart was able to retain a degree of stability with just a 5% decrease to 171,000 sqm, while Düsseldorf recorded the most severe setback (-47%, to 225,000 sqm). As during the previous years, Munich was the market with the highest actual take-up (-29% to 540,000 sqm), followed by Berlin (-11% to 420,000 sqm), Frankfurt (-27% to 360,000 sqm) and Hamburg (-36% to 350,000 sqm). Despite falling completion volumes, vacancy rates will probably continue to rise, DIP predicts.

## SELECTED RETAIL MARKETS

**French non-food retailing - Consumers waited for promotions before spending for Christmas:** According to La Tribune, French consumers only began to buy this Christmas on the weekend of December 12 and 13. End-of-year sales were characterized by the hunt for low prices, sound values, and useful gifts, including small electrical household appliances. While stores were slow to fill before the holidays, e-commerce benefited from the bad weather and transport strikes in the Paris region, continuing to be very lively.

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 ↓	↑
BERLIN	10.1 →	246 →	5.50 →	↑
PRAGUE	12.3 ↑	228 ↓	6.59 ↑	N.A.
MADRID	9.3 ↑	336 ↓↓	5.89 →	↑

Source: PMA, CBRE, 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