AEW EUROPE

Research & Strategy
European Real Estate Weekly Monitoring Page
2009/10/05
www.aeweurope.com

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

Car sales to plummet - automotive sector does not attract: US car sales fell by 35% in September, as the 'cash for clunkers' scheme came to an end. The end of the German scrappage scheme led to a last minute mini-surge (a 1% rise!) in monthly car sales – but the numbers are going to come down sharply during the autumn and into 2010. Unless these types of incentives manage to kick-start sustained domestic demand, all they do is rob the future for the present.

Weak fundamentals catching up with crude prices – medium-term growth outlook to weaken oil prices: OECD petroleum stocks remain above 'normal' levels, suggesting demand continues to exceed supply in the crude market. Given a close historical relationship between G7 industrial production (positive), the dollar (negative) and the WTI spot price, future expected weak growth and a stronger dollar are likely to depress future oil prices. (Source: LSR, AEW Europe)

Interest Rates (%)	Day/Day *	3M	1Yr	2Yrs	3Yrs	5Yrs	10Yrs	30Yrs
Euro Swap	0,36	0,75	1,17	1,64	2,06	2,63	3,38	3,84
UK Swap	0,50	0,55	0,85	0,85	2,38	3,08	3,74	3,93
US FED Funds Swap	0,13	0,28	0,58	1,20	1,78	2,53	3,35	3,87

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

Bond Yields (%)	1Yr	3Yrs	5Yrs	7Yrs	10Yrs	15Yrs	30Yrs
Bundesbank Germany	0,65	1,71	2,29	2,68	3,12	3,65	3,87
UK Gilts	0,36	1,49	2,48	2,83	3,41	3,86	4,00

Source: Bloomberg

Equity Markets	Current	% Change YTD	% Change 52 WK	% Div Yields
CAC 40	3651	13,47	-10,52	4,02
Dow Jones	9488	8,10	-8,11	2,94
FTSE 100	4988	12,50	0,16	3,86
EPRA Europe	1195	22,56	-20,22	4,98

Source: Bloomberg

NEWS TICKER

The decline in American GDP in the second quarter was revised down to an annual rate of 0.7% from an earlier estimate of 1%. The figures were adjusted mainly because government spending increased more, and business investment fell less, than previously estimated. The fall in Britain's second-quarter GDP was also revised, from an annual rate of 0.7% to 0.6%.

Germany's unemployment rate fell by 0.1 percentage points to 8.2% in September.

Spain's Colonial convinces banks to extend, but developer Nozar fails. Spain's struggling property group Colonial has convinced banks to re-refinance debt for €7bn, covering almost 78% of its external financing amounting to €9bn. Separately however, developer Nozar has failed to agree with banks for more funding, and becomes the second largest corporate failure in Spain's history after Martinsa Fadesa. (Source: The Economist, Tradition Financial, AEW Europe)

REAL ESTATE MARKET INDICATORS

Real estate market sentiment improves: The real estate markets of the MENA region have seen a marked improvement in sentiment, according to findings from the third semi-annual Real Estate Investor Sentiment Survey from JLL.

CMBS/RMBS: Tesco is to undertake its second property securitisation this year, taking the total raised through property to almost £1bn since July…. Lloyds Banking Group has issued new bonds backed by more than 513,000 prime UK residential mortgages...The sale of £4bn of RMBS is the first to tap the wholesale resi debt market since 2007.

CEE property investment turnover rises in July/August according to CBRE: Property investment in Central and Eastern Europe (CEE) totaled approximately €458 million in July/August 2009, through 17 mostly off-market transactions, according to CBRE.

The IPF Consensus Forecast All Property UK total return forecast for 2009 has improved, moving up to -11.9% from the -15.1% reported in Q2. This is the first time forecast total return for 2009 has improved since it was initially reported in Q1 2007.

SELECTED OFFICE MARKETS

City of London: Mixed signals but outlook is better. The City of London office market has corrected the first and fastest of all European capitals, which has led to hopes that the worst of the impact from the financial crisis is now over. There are still very mixed signals however and leasing conditions are still difficult. JLL estimates that vacancy levels have reached around 9.4% in the City. This is projected to rise to as much as 14% before the end of the downturn, partly because tenants are subletting unused space but also because a supply of new, small buildings is coming through. The City has experienced a fall in prime rents of about half on a net basis, according to King Sturge. However, digging beneath this, there are signs of hope emerging, particularly after the letting of Watermark Place to Nomura, the Japanese investment bank, which removed one of the City's largest empty buildings. Many predict that the terms of this letting will mark the bottom of the market for this sort of office scheme. Nomura is not expected to have to pay any rent for six years, although it will pay for some of the fit out costs of the building, and even after the rent-free period it will pay less than £50 (€54.4) per sq ft!

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	↑	↑
Frankfurt	16.8	↑	402	↓	5.50	→	↑
Warsaw	7.4	↑	288	↓	6.39	↑	↑
Barcelona	9.2	↑	270	↓	5.89	→	↑

Source: PMA, CBRE, AEW Europe

SELECTED RETAIL MARKETS

Index points to healthier European retail sales. Retail sales declined less in September than in any of the last 16 months, according to London-based Markit Economics' European retail sales index (based on a survey of 1,000+ executives).

Marks & Spencer increased its profit guidance for the year, after posting better-than-expected sales for Q2. However, the discount war that appears to be brewing on the British high street will likely put pressure on the firm's margins.

Swedish and German retail sales fell in August. Swedish and German retail sales fell unexpectedly in August, versus July. The 2.1% drop in Sweden may bolster the case for the country's central bank holding interest rates at current record lows for some time. The decline in Germany was unexpected, as retail sales had grown by 0.7 percent in July and improvements were seen across the wider economy. (Source: Bloomberg, Forbes, KAM City, Reuters, FT)

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	0.5	↓	0.4	2514	↓	5.7	↑	0.1
Germany	0.1*	↑	-0.4*	2665	↓	4.8	↑	0.3
Italy	-2.1	↓	0.1	1937	↓	5.3	↑	0.7
Spain	-3.8	↓	-0.4	1924	↓	5.8	↑	-0.2

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