

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

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### CAPITAL MARKET INDICATORS

**The Fed announced late on Thursday that it was lifting the discount rate**, by a quarter of a percentage point to 0.75% and the length of loans would be returned to an overnight period from 30 days. Although many had expected such a move as being one of the first steps by the Fed towards normalizing monetary policy, the timing – outside any scheduled policy meeting – unnerved the market. The Fed made clear that the step was not intended as the start of a rate rise cycle by stealth. Indeed, the Fed stressed that the move should not change liquidity conditions significantly.

**UK Bond yields rising:** Gilt yields accelerated above those of Italy after eclipsing Spain last week on rising fears that the withdrawal of quantitative easing will hit the UK economy. Worries over the outcome of the general election have added to pressures as polls point to a hung parliament that could delay budget reduction plans. UK 10-year bond yields, which have an inverse relationship with prices, were also pressured by weak public finance numbers on Thursday, which suggested the UK budget deficit would be worse than forecasts.

**CBRC worries about loan quality in China, should worry about inflation to:** The Chinese banking authorities (CBRC) currently seem to be more worried about loan quality and risk control than about inflation. The remedy is very much the same – tighten policy. However, as inflation picks up in 2010, policy will have to mean higher interest rates and a stronger yuan. (Sources: FT, LSR, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0.33	0.66	1.16	1.55	1.95	2.57	3.46	3.82
UK SWAP	0.53	0.64	0.88	0.88	2.22	3.04	3.98	4.25
US FED FUNDS SWAP	0.14	0.25	0.54	1.18	1.82	2.77	3.88	4.58

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0.60	1.51	2.28	2.78	3.28	3.68	4.01
UK GILTS	0.72	2.06	2.98	3.73	4.24	4.65	4.69

Source: Bloomberg

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3766	-4.32	36.92	3.81
DOW JONES	10384	-0.42	40.98	2.64
FTSE 100	5368	-0.83	38.02	3.44
EPRA EUROPE	1231	-2.01	51.34	4.33

Source: Bloomberg

### NEWS TICKER

**Industrial production in America picked up in January:** Output rose by 0.9% during the month, having increased by 0.7% in December. In the year to January production went up by 0.9%. Manufacturing output grew by 1.7%, while mining and utilities experienced a decline.

**UK unemployment rose in Q4:** The number of people in Britain who have been out of work for more than a year increased by 37,000 in the three months to December to 663,000, the highest since the quarter ending in September 1997. The unemployment rate was unchanged at 7.8%. After falling for two months in a row, the number of people claiming unemployment benefits rose by 23,500 in January to 1.64m, the highest since April 1997.

**Trade surplus of €4.4bn in December within euro area:** This compares with a deficit of €1.8bn in December 2008. Exports rose by a seasonally adjusted 3.1% between November and December, while imports rose by 1.7%.

**GDP in the euro area fell by 2.1% in the year to the fourth quarter.** GDP grew by 0.1% in the three months to December, According to an early estimate.

**Japan's GDP expanded by 1.1% in the last quarter of 2009.** Growth was led by a rebound in exports and corporate investment. But the Japanese economy was still 0.4% smaller than a year earlier. (Sources: The Economist, Bloomberg, AEW Europe)

### REAL ESTATE MARKET INDICATORS

**Investment transaction volume for logistics and industrial properties in Germany in 2009 decreased by 70%** to around €550 mil. compared to €1.81bn in 2008, according to Jones Lang LaSalle. The decline in investment activity in the logistics asset class was also higher than the overall average; transaction volumes for all asset classes in Germany in 2009 as a whole fell by 47%, compared with the previous year to €10.3 bn. The lack of momentum in the market was illustrated by the number of completed transactions, which fell by 36% in 2009. Transactions over €10 mil. were particularly affected, declining by 52%. The average lot size of deals was around €21 mil. in 2009, compared to €35mil. in 2008.

**US commercial real estate suffered its worst annual capital return on record:** This is according to the IPD US Quarterly Property Indicator, which fell -23.9% in 2009, taking the total capital decline to -33.4% from December 2007 when real estate values were at their peak. The US is the fourth market for which IPD now has a full calendar year worth of figures to analyse. The indicator reveals that Cap rates softened by 140 basis points over the year to end 2009 at 7.1% - the highest level in six years. New York, Washington and Chicago all suffered slightly less severe market value write-downs than the broader US market, while LA and San Francisco both fell further than national average. (Source: Thomas Daily, Europe Real Estate)

### SELECTED OFFICE MARKETS

**Top German Office Locations more sensitive to crises:** During the past years, the office markets in the six top locations have reacted much more sensitively to crises than have mid-level regional centers. This is a central result of the current DG HYP study analyzing for the first time not only the top six markets of Hamburg, Berlin, Düsseldorf, Frankfurt, Stuttgart and Munich, but also the twelve important regional centers of Augsburg, Bremen, Darmstadt, Dresden, Hanover, Karlsruhe, Cologne, Leipzig, Mannheim, Mainz, Münster and Nuremberg. Although the supply of floor space in the top six hardly grew, the vacancy rate more than doubled during the last ten years, from 4.7% to nearly 10% at the end of 2009, while rising only from 6.1% to 7.6% in the regional centers during the same period. Office rental rates are also subject to stronger fluctuations in the top six: there, rents climbed by 4.0% in 2008 and dropped by 4.7% in 2009; in contrast, regional center rents rose by an average of 2.9% in 2008 and fell by only 1.0% in 2009. (Source: Thomas Daily)

SELECTED OFFICE MARKETS (Q4/2009 DATA)				
	VACANCY RATE (%)	PRIME RENT (€/SQM/YR)	PRIME NET YIELDS (%)	BUSINESS CONFIDENCE
PARIS (CBD)	6.3 ↑	664 ↑	5.50 ↓	↑
LONDON (CENTRAL)	10.3 ↓	778 →	5.39 ↓	↑
MUNICH	8.7 ↑	336 ↓	5.25 →	↑
WARSAW	9.3 ↑	264 →	6.62 ↑	↓
ROME	8.7* ↑	370 →	5.37 ↓	↓

\*Q3/2009 Source: PMA, CBRE, AEW Europe

### SELECTED RETAIL MARKETS

**Asda to open hundreds of stores:** Asda, the second-largest supermarket chain in the UK, plans to open 100 smaller-format stores over the next few years, according to JPMorgan analysts. The retailer also plans to launch 150 nonfood stores. The Wal-Mart subsidiary is expected to emphasize smaller-format stores and to leverage the buying power of its parent company.

**Kingfisher bullish on DIY retailing:** Kingfisher's CEO Jeff Cheshire says he sees signs of encouragement, including a pick-up in housing market deals. Kingfisher, Europe's biggest do-it-yourself retailer with over 830 stores in eight countries, nudged up profit forecasts but is continuing to plan conservatively and focus on cutting costs and boosting profit margins. (Source: New York Times, Financial Times)

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	0.7 ↑	0.9	2628 ↓	5.8 ↑	0.1
GERMANY	0.5* ↑	-0.1*	2856 ↑	4.4 →	0.4
ITALY	-1.7 ↓	0.6	2122 →	5.2 ↑	0.8
SPAIN	-5.1 ↓	-0.8	2183 →	5.7 ↑	-0.3

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