AEW EUROPE

Research & Strategy
European Real Estate Weekly Monitoring Page

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CAPITAL MARKET INDICATORS

Bond traders declare inflation dead after yields fall: The bond vigilantes who punished governments for profligate spending in past years have gone into hiding. Sovereign bonds yield an average 2.385%, about the same as a year ago and below the average of 3.08% in 2008 when the credit market seizure led investors to seek the safety of government debt, according to Bank of America Merrill Lynch index data. The cost to borrow is steady even though the amount of bonds in the index that includes nations from the U.S. to Germany and Japan has grown to €13 trillion from €10 trillion two years ago.

ECB warns of global imbalances threat: Distortions in the global economy that provided the backdrop to the financial crisis threaten to widen again and upset the worldwide recovery, the European Central Bank has warned. The ECB has made clear its fear that governments are not doing enough to put the global economy back on a sustainable growth path – despite international policy initiatives in the past year. "At the current juncture, global imbalances continue to pose a key risk to global macroeconomic and financial stability. The stakes are high to prevent a disorderly adjustment in the future that would be costly to all economies," it concludes in a special article in its monthly bulletin published on Thursday.

Euro weakens on concern Greek aid package still faces hurdles: The euro declined, sliding for the seventh time in eight days against the dollar, on concern the European Union-led Greek bailout plan will face hurdles as donor countries begin ratifying the aid package. The euro fell against all 16 of its most-traded peers, dropping most against the pound and the rand, after German Finance Minister Wolfgang Schaeuble said yesterday that his nation's aid for Greece can still be rejected. (Sources: FT, Bloomberg, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0.34	0.65	1.13	1.45	1.79	2.36	3.21	3.60
UK SWAP	0.54	0.66	0.95	1.77	2.31	3.04	3.87	4.10
US FED FUNDS SWAP	0.25	0.32	0.58	1.21	1.80	2.70	3.77	4.44

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0.56	1.20	2.08	2.53	3.05	3.41	3.79
UK GILTS	0.67	1.92	2.81	3.41	4.01	4.46	4.58

Source: Reuters

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3984	0.38	31.33	3.53
DOW JONES	11134	7.44	40.81	2.44
FTSE 100	5760	5.74	42.44	3.25
EPRA EUROPE	1292	1.92	32.51	4.59

Source: Reuters, Datastream

NEWS TICKER

EU trade surplus in February: The euro area went from having a trade deficit of €9 bn with the rest of the world in January to having a surplus of €2.6 bn in February. Exports in February were 2.7% higher than in January on a seasonally-adjusted basis, while imports increased by 1.5%.

Greece's Current-account Deficit More Than two-and-a-half times last February's figure: The deficit accounted to €3.25 bn in February, compared to €1.24 bn a year earlier. The unemployment rate rose to 11.3% in January from 10.2% in December.

Inflation gathered pace in both the Euro Area and in Britain: British inflation quickened to 3.4% in March from 3% in February. Inflation in the euro area, which was 0.9% in February, rose to 1.4% in March.

Britain's unemployment rate for the three months to the end of February was 8%: This is an increase of 0.1% points over the rate for the previous three-month period. The number of people claiming unemployment benefits edged down in March by 32,900 to 1.54m.

U.K. house prices rose in April at the slowest pace in three months: This came as the supply of homes for sale picked up, Hometrack Ltd. said. (Sources: Bloomberg, The Economist, AEW Europe)

REAL ESTATE MARKET INDICATORS

Investors take on more risk as French prime dries up: according to CBRE, institutional investors in France are turning to riskier asset profiles due to the scarcity of prime products on the market. Just six months ago, the motto had been security, security, security, but today investors are shifting towards non-prime investments, because of a lack of supply. Investor appetite for French real estate had come back, alongside a return of risk premium due to the increasing cost of money. Yields for prime office properties had come under pressure, moving by 125 basis points from 6.5% in the third quarter of 2009 to 5.25% at present. As a result, some institutional investors who cannot afford to buy at 5.25% are now easing up on their investment criteria, in terms of good location, good tenants and well-let properties.

European real estate investment up 65% Y-O-Y, hits €19.1bn in Q1 2010: European commercial real estate investment turnover reached €19.1 bn in Q1 2010, a 65% increase on the €11.6 bn transacted in Q1 2009, according to CBRE. This extends the general recovery in investment activity that began in the latter part of 2009, with almost all European markets reporting turnover increases over Q1 2009. As expected, however, the Q1 2010 figures showed a decline compared to Q4 2009 volumes. As the last few months of the year are traditionally the most active, with investors pushing to complete transactions by the year-end, this quarterly decline is consistent with normal seasonal patterns. (Sources: PropertyEU, Europe RE, AEW Europe)

SELECTED OFFICE MARKETS

Substantial rise in London office rent expectations: According to the RICS' UK Commercial Property Survey, there are signs of a turnaround in some sectors of London's commercial property market. Rental expectations rose dramatically for London offices moving above zero for the first time since Q4 2007 as available space declined for the second consecutive quarter. This is the first time more RICS surveyors have reported an anticipated rise in rents for two years. The positive net balance of 57% (compared with the previous reading of zero) for central London office property was the biggest upward jump on record. This contrasts with the picture in the rest of the UK where available space is rising across all sectors and rental expectations are still negative. (Sources: Europe RE, AEW Europe)

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	↓	↑
DÜSSELDORF	10.5	↓	264	→	5.50	→	↑
BUDAPEST	19.8	↑	174	↓	7.00	→	↑
ROME	8.7	↓	350	↓	5.37	↓	↑

Source: PMA, CBRE, AEW Europe

SELECTED LOGISTICS MARKETS

Industrial-logistics investment rises in Europe: A sharp rise in investment activity in the European industrial and logistics market reflects an increasing confidence in the sector in 2010, according to the latest CB Richard Ellis EMEA Industrial & Logistics MarketView. The investment focus is particularly in the UK and major hubs across mainland Europe including the Netherlands and Germany. CBRE said the investment levels in the second half of 2009 rose by 52% compared to the first half of the year, taking full-year 2009 turnover to EUR 6.5 bn. The UK accounted for 50% of transactions completed during the year in Europe. The industrial sector maintained its 9-10% of the overall European market in 2009. (Sources: PropertyEU, AEW Europe)

SELECTED LOGISTIC MARKETS (2009)	PRIME RENTS (€/SQM/YR)	ANNUAL TREND	YIELDS (%)	ANNUAL TREND	2009E TOTAL RETURN (%)	ANNUAL TREND
PARIS	54	↓	8.0	↑	-5.6	↑
HAMBURG	66	→	7.3	↑	1.1	↑
PRAGUE	52	↓	8.2	↑↑	-17.6	↓↓
MADRID	72	↓↓	7.5	↑↑	-23.6	↓↓

Source : PMA, AEW Europe