

**CAPITAL MARKET INDICATORS**

**China economy surpasses Japan, capping three-decade rise:** China surpassed Japan as the world's second-largest economy last quarter, capping the nation's three-decade rise from Communist isolation to emerging superpower. Japan's nominal GDP for the second quarter totaled \$1.288 trn, less than China's \$1.337 trn, the Japanese Cabinet Office said today.

**Russia banks flock to foreign debt market as deposits at record:** Russian banks are stepping up international bond sales after relative corporate borrowing costs fell to their lowest level in three months and record deposits increased the allure of the lenders' debt. The yield difference for Russian company debt compared with government bonds sank to 91 basis points on Aug. 5 down from 942 in Oct 2008.

**Fed offers fresh aid to shaky recovery:** The Federal Reserve on Tuesday took a small but significant step to counter a weakening U.S. economic recovery, saying it would use cash from maturing mortgage bonds it holds to buy more government debt. The decision to reinvest proceeds from the nearly \$1.3 trillion in mortgage-linked debt, acquired during the 2008 financial crisis in an effort to keep borrowing costs down, represents a policy shift for the central bank. A number of market observers expect the Fed to take more policy easing steps in the months ahead.

**Obama wins low yields as markets shrink, aiding deficit:** Bond investors seeking top-rated securities face fewer alternatives to Treasuries, allowing President Barack Obama to sell unprecedented sums of debt at ever lower rates to finance a \$1.47 trn deficit. While net issuance of Treasuries will rise by \$1.2 trn this year, the net supply of corporate bonds, mortgage-backed securities and debt tied to consumer loans may recede by \$1.3 trn, according to Bank of America (Sources: The Economist, JP Morgan, Reuters, FT, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0.45	0.90	1.16	1.26	1.42	1.86	2.60	2.95
UK SWAP	0.55	0.73	0.80	1.23	1.54	2.13	3.10	3.71
US FED FUNDS SWAP	0.23	0.37	0.47	0.69	0.98	1.62	2.58	3.34

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0.57	0.81	1.34	1.88	2.36	2.73	3.10
UK GILTS	0.64	1.02	1.79	2.43	3.07	3.68	4.10

Source: Reuters

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3583	-8.27	2.45	3.96
DAX	6104	-0.60	9.64	3.06
FTSE 100	5257	-2.54	10.93	3.46
DOW JONES	10320	-1.20	9.63	2.71
EPRA EUROPE	1237	-1.30	7.24	4.58

Source: Reuters, Datastream

CDS SPREADS	GER	UK	FR	IT	SP	POL	GR	POR	HUN	US
CDS 10 YEAR SPREAD (bp)	53.8	75.9	82.1	185.0	216.2	144.2	730.5	260.4	327.5	57.3

Source: Datastream, AEW Europe

**NEWS TICKER**

**America's exports of goods were 2.2% lower in June than in May:** Imports grew by 3.3%. The country's trade deficit widened to \$62.0 billion in June from \$54.3 billion the previous month.

**China's trade surplus surged to \$28.7 billion in July:** This is the highest monthly figure since January last year. Year-on-year export growth slowed to 38.1% in July from June's 43.9% annual rise. Import growth declined more sharply, to 22.7% in the year to July from 34.1% in the year to June.

**Germany's trade surplus in June rose markedly to €14.1 bn (€9.8 bn in May):** Exports went up by 28.5% in the year to June, while imports increased by 31.9%.

**Britain's unemployment rate for the three months to the end of June was 7.8%:** This is a fifth of a percentage point lower than in the previous quarter.

**French industrial production was 5.7% higher in June than a year earlier:** The overall rise came despite falling by 1.7% in the month.

**Italy's GDP expanded by 0.4% in the second quarter, similar to Q1.** Industrial production grew for the sixth month in a row in June, rising by 0.6%.

**Europe inflation accelerates to fastest since 2008 on rising energy prices:** Consumer prices in the 16 nations that use the euro increased 1.7% from a year earlier after rising 1.4% in June, according to the European Union statistics office. (Sources: Bloomberg, The Economist, AEW Europe)

**REAL ESTATE MARKET INDICATORS**

**CB Richard Ellis reports new influences emerging in European debt market:** Despite the overall positive signs of increasing lender confidence, the quarter also exposed some regional differences largely as a result of the impact of the sovereign debt crisis. France, Germany, the Netherlands and the UK remained mainly unaffected. In contrast, Spain and Italy started to experience a change in sentiment reflecting their higher budget deficits and weaker fundamentals. As a result, it is likely that the cost of money in these markets is set to increase in the months ahead.

**UK market rises 15.4% year-on-year:** The UK commercial property market has completed a full year of capital growth, with markets rising by 15.4% since last August, according to July's IPD UK Monthly Index.

**Strong H1 demand for German open-ended funds:** The funds witnessed average net inflows of EUR 2.1 bn over the six-month period, BVI said. Special funds targeting institutional investors saw average net inflows over the first six months of €600 mln. BVI said the drop in demand for GOEFs in May, when investors withdrew €1.4 bn from the funds, had since reversed. In June the funds reported net inflows of €300 mln.

**Aareal originates EUR 1.6b new financing in Q2:** Aareal Bank Group has said it originated €1.6 bn of new estate lending in the second quarter of this year compared to €700 mln in the second quarter of 2009.

(Sources: PropertyEU, EuropeRE, AEW Europe)

**SELECTED OFFICE MARKETS**

**Strong recovery for Netherlands office demand:** Take up in Amsterdam increased by 36% (132,000 m<sup>2</sup>) whilst Utrecht saw lettings volumes increase by 16% in H1. This demand was predominately driven by business services sectors. In Rotterdam (89,000 m<sup>2</sup>, +94%) the key driver was manufacturing, construction, transport and communication. The Hague saw a decline by 42% compared to H109 due to less demand from public bodies.

**Vacancy rates drop in Moscow:** Vacancy rates in Moscow's office sector dropped to 15% in the second quarter, according to a report by JLL. Buoyed by demand for quality office space, the decrease marks a significant fall from the 19.6% recorded at end-2009. (Sources: PropertyEU, EuropeRE, AEW Europe)

SELECTED OFFICE MARKETS (Q2/2010 DATA)				
	VACANCY RATE (%)	PRIME RENT (€/SQM/YR)	PRIME NET YIELDS (%)	BUSINESS CONFIDENCE
PARIS (CBD)	5.9 ↓	710 ↑	5.10 ↓	↑
LONDON (CENTRAL)	9.7* ↓	837* ↑	5.00* ↓	↑
HAMBURG	10.5 ↑	270 →	5.00 ↓	↓
WARSAW	9.6 ↓	264 →	6.39* ↓	↑
MADRID	10.7 ↑	324 ↓	6.35 →	↑

\*Q1 2010 Data. Source: PMA, CBRE, AEW Europe

**SELECTED RETAIL MARKETS**

**Uneven retail investment market recovery in CEE:** Prime shopping center rents remained mainly stable across CEE in H1 2010. Prime rents in Eastern European (EE) capitals have, however, increased considerably. Rents increased for the third quarter in a row in EE and are 10-15% above the levels recorded in H1 2009. This is a result of a better economic outlook combined with the more volatile character of these markets. The majority of CE capitals witnessed prime yield compression of 10-25 bps in H1 2010, while prime yields in Kyiv and St. Petersburg dropped by 100-200 bps after dramatic softening during the crisis. (Sources: EuropeRE, AEW Europe)

SELECTED RETAIL MARKETS					
	HOUSEHOLD CONSUMPTION 2009 (%YOY)	HOUSEHOLD CONSUMPTION 2010E (%YOY)	AVERAGE PRIME RENTS Q1 2010 (€/SQM/YR)**	AVERAGE PRIME YIELDS Q1 2010 (%)	CONSENSUS ANNUAL INFLATION 2010E (%)
FRANCE	0.6 ↓	1.2 ↓	2547 →	5.6 ↓	1.6 ↓
GERMANY	-0.1* ↓	-0.8* ↓	2856 →	4.4 ↓	1.1 ↓
ITALY	-1.8 ↓	0.4 ↓	2123 ↑	5.0 ↓	1.5 ↓
SPAIN	-5.0 ↓	0.0 ↓	2183 →	5.3 ↓	1.5 ↓

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