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CAPITAL MARKET INDICATORS

EU Stress Tests May Be 'Missed Opportunity' to Fortify Banks: European Union stress tests found banks need to raise €3.5 bn of capital, about a tenth of the lowest analyst estimate, leaving doubts about whether regulators were tough enough. Germany's Hypo Real Estate Holding AG, Agricultural Bank of Greece SA and five Spanish savings banks didn't have adequate reserves to maintain a Tier 1 capital ratio of at least 6% in the event of a recession and sovereign-debt crisis. Had the Tier 1 threshold been 7%, 24 of the 91 banks would have failed, said Andrew Sheets, Morgan Stanley's head of European credit strategy in London.

Investor Concern Turning Back to U.S. After Stress Tests: While the euro weakened 15% in the first half as the region's debt crisis threatened to tear the currency union apart, investors have shifted their focus to the U.S. as the dollar depreciated 8% from a four-year high in June. U.S. economic data fell short of economists' estimates this month by the most since March 2009, while euro-region reports exceeded forecasts since April, according to Citigroup Inc. indexes.

European Government Bond Yield Spreads' Reaction After Stress Tests: The premium investors demand to hold Irish, Spanish and Greek bonds over German bunds fell. The difference in yield between Greek and German 10-year bonds narrowed one basis point to 766 basis points, while the Spanish-German yield spread also fell one basis point to 164 basis points. The Irish-German spread was little changed at 271 basis points. (Sources: Bloomberg, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0.50	0.89	1.21	1.41	1.67	2.18	2.97	3.35
UK SWAP	0.55	0.74	0.89	1.47	1.85	2.49	3.45	3.96
US FED FUNDS SWAP	0.25	0.49	0.54	0.83	1.20	1.94	2.99	3.76

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0.54	1.08	1.70	2.27	2.73	3.05	3.40
UK GILTS	0.64	1.30	2.17	2.80	3.43	3.99	4.30

Source: Reuters

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3608	-8.37	6.92	3.99
DAX	6163	0.31	13.89	3.03
FTSE 100	5320	-1.85	16.51	3.22
DOW JONES	10425	-0.03	14.94	2.67
EPRA EUROPE	1256	-0.46	24.37	4.61

Source: Reuters, Datastream

CDS SPREADS	GER	UK	FR	IT	SP	POL	GR	POR	HUN	US
CDS 10 YEAR SPREAD (bp)	46.4	70.2	77.9	162.9	188.3	149.1	670.9	247.8	326.8	42.6

Source: Datastream, AEW Europe

NEWS TICKER

Global Economy Slowing to 3.25% From 4.7% Recent Average: After policy stimulus and inventory-rebuilding pulled the major economies out of recession with 5% growth in the first quarter, they are slouching toward a weaker expansion, even as they show signs of dodging a double-dip. Global growth may average 3.25% to 3.5% in the next three to five years, well below the 4.7% pace of the five years leading up to the 2008 slump, estimates Stephen Roach, non-executive chairman of Morgan Stanley Asia.

America's Annual Inflation Rate Declined Sharply: From 2% in May to 1.1% in June, when prices fell by 0.1% from the previous month. But core inflation, which strips out the effect of volatile food and fuel prices, remained positive. Core prices rose in June, by 0.2% from the previous month and by 0.9% on a year-on-year basis.

Industrial Production in America Edged Up by 0.1% During the Month of June: This was after a robust 1.3% rise in May.

EU Balance of Trade: The euro area went from having a trade surplus of €0.3 bn in April to posting a deficit of €3.4 bn in May.

Canada's Central Bank Raised its Policy Rate: This was for the second time in as many months, by a quarter of a percentage point to 0.75%. (Sources: Bloomberg, The Economist, AEW Europe)

REAL ESTATE MARKET INDICATORS

Sovereign Debt Crisis Impacts, But Investment Market Performance Still Positive: On paper the last quarter saw a further improvement in the European real estate market, with dealing volumes rising 19%, yield compression continuing, capital value growth accelerating, better sentiment spreading away from just core countries and occupier markets stabilizing – with prime rents registering their first quarterly increase since Q3 2008. However, while the period started well, the market hit a bump mid-quarter as the sovereign debt crisis caused greater uncertainty and a fall in risk appetites. This led to a stabilization in property yields and sentiment. At the same time, the still restricted supply of affordable bank debt was also not supportive of a deeper recovery in demand.

Real Estate in Emerging Economies Outperforms Western Europe: While occupier demand is rising in the majority of countries across the globe, in the UK and eurozone countries, tough measures to reduce deficits appear to be having a more pronounced impact on businesses' appetite to take up new space. According to RICS, Brazil is leading the way with the net balance of surveyors reporting a rise in occupier demand moving from 70% to 85%, with markets in Peru and China also performing well. By way of contrast, demand in the UK turned negative for the first time in a year with a net balance falling from a positive 14% to a negative 4%.

Hypo Keeps its Cool After Failing Stress Test: German property lender Hypo Real Estate (HRE) has said that its failure to pass the pan-European stress test designed to determine banks' financial health has 'limited relevance' for the group as the finding does not reflect steps being taken to strengthen its balance sheet. (Sources: PropertyEU, EuropeRE, AEW Europe)

SELECTED OFFICE MARKETS

Dublin Office Market: According to CBRE, the sector witnessed healthy office take-up levels in the second quarter of 2010, but the medium to longer term outlook remains uncertain. Take-up rose by 6% in Q2 on an annual basis.

Office Enquiries in Q2 Disappointing After Promising Start to the Year: King Sturge's latest UK office enquiries data hint that recent buoyancy in office demand may not be sustained. Figures for the quarter just ended show a decline in both the level (-12% q-o-q) and the number (-14%) of enquiries recorded across the office network. This is disappointing after a promising start to the year, though it repeats the pattern of the last 18 months when enquiries have failed to shift up from their trough. (Sources: PropertyEU, EuropeRE, AEW Europe)

SELECTED RETAIL MARKETS

Luxury Fashion Brand Drive Global Retailer Expansion: Luxury goods retailers have emerged as the most active and expansive retail sector, responsible for over 23% of new store openings during the past year, according to the new edition of How Global is the Business of Retail? by CB Richard Ellis. On average, luxury retailers operate in over 25 countries and 50 cities worldwide - giving them the largest global presence of all retail sectors.

Strong Interest in Prime French Retail Set to Continue: The strong increase in French retail investment witnessed in the first six months of 2010 is set to continue in the second half, according to property adviser Savills, whose latest French retail bulletin reports that H1 investment volume reached €2.1 bn compared to €529 mln a year earlier. (Sources: 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* ↓	↑
COLONE	12.1 ↑	234* →	5.45* →	↓
WARSAW	9.4* ↑	264* →	6.39* ↓	↑
BARCELONA	12.0* ↑	240* →	5.44* →	↑

*Q1 2010 Data. Source: PMA, CBRE, 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