

**CAPITAL MARKET INDICATORS**

**European Banks at Risk of Write Downs From Sovereign Debt Crisis Face Funding Squeeze:** This may depress earnings, curb lending and imperil economic recovery in the region. Investors are shunning bank securities on concern Greek, Portuguese and Spanish bonds held by the lenders will plunge in value. Bank bond sales slowed in May to the lowest since Lehman Brothers' failure in 2008 as the extra yield buyers demand to hold the securities over government debt soared to the highest this year. Banks are wary of lending to each other, depositing record funds with the European Central Bank.

**Stocks Beat Bonds in Value as U.S. Profit Yields Jump:** The biggest decline for global equities in 15 months has left stocks at the cheapest level relative to bonds since the collapse of Lehman Brothers, a sign that shares in the U.S. and Europe may rally. S&P500 companies yielded 4.4% points more in profit than the average interest rate on investment-grade bonds last week, according to data compiled by Bloomberg and Barclays. The inflation-adjusted spread shows stocks are trading near the lowest prices compared with corporate earnings since November 2008 next to bonds.

**Treasuries Drop as Signs of Global Recovery Damp Safety Demand:** Bonds fell, extending last week's decline, as signs the global economy is recovering eroded demand for the safety of U.S. government securities. The euro strengthened after Greek Finance Minister George Papaconstantinou told a newspaper his nation isn't considering restructuring its debt. The MSCI World Index of shares rose for a fifth straight day, while bond risk in Asia declined. (Sources: Bloomberg, Reuters, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0.33	0.72	1.08	1.26	1.53	2.08	2.91	3.21
UK SWAP	0.55	0.73	0.96	1.53	1.89	2.53	3.45	3.77
US FED FUNDS SWAP	0.30	0.54	0.76	1.12	1.57	2.36	3.34	3.99

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0.30	0.63	1.52	1.99	2.63	3.00	3.37
UK GILTS	0.59	1.37	2.23	2.86	3.49	3.99	4.25

Source: Reuters

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3610	-9.67	6.61	3.95
DAX	6119	-1.62	14.68	3.12
FTSE 100	5197	-4.60	15.73	3.71
DOW JONES	10173	-2.08	16.42	2.8
EPRA EUROPE	1181	-6.61	19.37	4.95

Source: Reuters, Datastream

**NEWS TICKER**

**The American Economy Added 431,000 Jobs in May,** and the unemployment rate declined by 0.2% to 9.7%. However, the boost to the labour market came almost entirely from the government, which provided 390,000 of the new jobs, mostly temporary ones created to handle the census. Private employers added a mere 41,000 jobs, less than a fifth of the 218,000 they added in April. Construction and retail shed jobs in May.

**The Greek Economy Shrank by 2.5%:** This was in the twelve months to the end of the first quarter. In May, inflation climbed to 5.4% from 4.8% a month earlier.

**In Germany, Industrial Production Rose by 0.9% in April,** compared with the previous month.

**Sweden's Industrial Production Rose by 7.3%:** This was in the year to the end of April. However output in Norway shrank by 4.6% over the same period.

**Spanish Industrial Production Grew by 3% YoY** to end of April.

**India's Inflation Unexpectedly Accelerates:** The benchmark wholesale-price index advanced 10.16% from a year earlier after a 9.59% gain in the previous month. That was faster than the 9.6% median forecast of 24 economists.

**Poland Elects a New President on Sunday 20<sup>th</sup>:** The election is a contest between Mr Kaczynski's twin brother, Jaroslaw, leader of the opposition Law and Justice Party and Bronislaw Komorowski, the speaker of the lower house of the Polish parliament. (Sources: Bloomberg, The Economist, The Wall Street Journal, AEW Europe)

**REAL ESTATE MARKET INDICATORS**

**German Institutional Investors to Invest €8.1 Bn Into Non-Listed Property Funds:** German institutional investors could invest up to €8.1 bn into non-listed funds over the next three years, according to INREV's Investor Universe Germany Survey 2010. Overall around €26.2 bn is predicted to be invested in real estate as an asset class. The German non-listed real estate universe is estimated at just over €16 bn (excluding other investors) and is expected to grow to €24.4 bn over the next three years. Current real estate exposures of German institutions at €59 bn are significantly below their target allocations of €847 bn. If investors exploit their current full real estate target allocations an additional €25 bn will enter the market.

**Lenders Still Have Appetite But Won't Flood Market with Stock as Swaps Unwind:** Savills reported that, whilst macroeconomic issues such as a new coalition, cutting the deficit, direction of inflation and the state of the Eurozone are creating uncertainty, interbank market stability has returned and debt finance is still available. Banks are under pressure to clean up loan books, but the cost of unwinding existing fixed interest instruments known as swaps is an important reason preventing a flood of property being released onto the market.

**UK Pension Schemes are Actively Looking to Increase their Property Exposure:** According to a survey by Arberdeen, nearly two thirds of the 166 pension schemes have exposure to property, 36% of whom said they would possibly be increasing their weighting, while 57% said they would be maintaining their current exposure. Of the schemes questioned that do not currently invest in property, 35% said they were actively considering allocating to the asset class. (Sources: EuropeRE, AEW Europe)

**SELECTED OFFICE MARKETS**

**France to Offload 1,700 Real Estate Properties:** The French government has announced plans to divest 1,700 real estate assets in the next three years in a bid to reduce the country's public debt. Budget minister François Baroin this week presented a new strategic real estate program which envisages the disposal of a large portfolio mostly located outside Paris. Offices make up 28% of total assets. (Sources: ThomasDaily, AEW Europe)

**SELECTED RETAIL MARKETS**

**Premier Retail Rents Down for Second Year, But Signs Mounting for Bounce Back:** The most expensive streets in 2010 are Champs – Elysees in Paris (more than \$13,500/m<sup>2</sup>/year), New York's Fifth Avenue at \$13,500/ m<sup>2</sup>/year (with 10% decrease against 2009), and Russel Street in Hong Kong at \$ 12,970/ m<sup>2</sup>/year. Moscow's Tverskaya is 22nd on the list with \$4,000/m<sup>2</sup>/year rental rate, falling behind such cities as London, Milan, Sydney, Zurich, Rome, Vienna, Berlin, Munich, Tokio, etc. Although a move to discount retail is apparent in many countries, luxury retail is still a viable sector and is still in a long-term uptrend.

**Rewe: 174 New Supermarkets Planned:** This year, the Rewe Group wants to open 174 new supermarkets in Germany, 60 of them bearing the Rewe brand, plus 114 Penny discount stores, according to its CEO. (Sources: EuropeRE, AEW Europe)

SELECTED OFFICE MARKETS (Q1/2010 DATA)				
	VACANCY RATE (%)	PRIME RENT (€/SQM/YR)	PRIME NET YIELDS (%)	BUSINESS CONFIDENCE
PARIS (CBD)	6.1 ↓	700 ↑	5.25 ↓	↑
LONDON (CENTRAL)	9.7 ↓	837 ↑	5.00 ↓	↑
DUSSELDORF	10.9 ↑	264 →	5.30 ↓	↓
WARSAW	9.4 ↑	264 →	6.39 ↓	↑
ROME	9.1 ↑	350 →	5.28 ↓	↑

\*Q4 2009 Data. Source: PMA, CBRE, AEW Europe

SELECTED RETAIL MARKETS					
	HOUSEHOLD CONSUMPTION 2009 (%YOY)	HOUSEHOLD CONSUMPTION 2010E (%YOY)	AVERAGE PRIME RENTS (€/SQM/YR)**	AVERAGE PRIME YIELDS 2009 (%)	CONSENSUS ANNUAL INFLATION 2009 (%)
FRANCE	0.8 ↑	1.0	2547 ↓	6.1	0.1
GERMANY	0.2* ↑	-0.5*	2856 ↑	4.9	0.4
ITALY	-1.8 ↓	0.6	2122 →	5.3	0.8
SPAIN	-5.0 ↓	-0.5	2183 →	5.8	-0.3

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