

CAPITAL MARKET INDICATORS

EU Under Pressure to Spell Out Stress Tests: Stress tests are being conducted on banks to see whether they could withstand losses if the region's debt crisis worsens. One concern among investors is that the tests aren't rigorous enough and won't assume large enough potential losses. Banks globally could lose as much as €714 bn in a worst-case scenario where Greece, Ireland, Italy, Portugal and Spain all have to restructure their debt, Nomura Holdings Inc. estimates. Moody's Investors Service said June 11 that EU banks can absorb losses on government and private debt in Greece, Portugal, Spain and Ireland without having to raise funds.

Kan's Election Defeat May Be Negative for Credit Rating, S&P, Moody's Say: Japan's prime minister Naoto Kan campaigned on a pledge to tackle the government's record debt by cutting spending and raising the nation's 5% sales tax. The ruling coalition lost its majority in the chamber, and it lacks two-thirds of members in the more-powerful lower house, making it hard to pass laws without support from opposition parties. The election loss could lead to a downgrade of Japan's credit rating should it hamper his ability to address the world's largest public debt, Standard & Poor's and Moody's Investors Service said.

China's Foreign Reserves Rise at Slowest Pace Since 1999 in Second Quarter: The country's foreign-exchange reserves, the world's largest, rose by 0.29% in the second quarter, the least in 11 years, as expectations for yuan gains diminished and the European debt crisis saw capital move out of emerging markets. China's scrapping of the dollar peg could revive bets on the yuan's appreciation and complicate the central bank's efforts to trim liquidity in the financial system and stem inflation. (Sources: Bloomberg, FT, AEW Europe)

INTEREST RATES (%)	DAY/DAY *	3M	1YR	2YRS	3YRS	5YRS	10YRS	30YRS
EURO SWAP	0.39	0.83	1.19	1.36	1.56	2.01	2.83	3.21
UK SWAP	0.55	0.73	0.87	1.38	1.77	2.41	3.37	3.85
US FED FUNDS SWAP	0.27	0.53	0.62	0.93	1.32	2.07	3.06	3.79

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

BOND YIELDS (%)	1YR	3YRS	5YRS	7YRS	10YRS	15YRS	30YRS
BUNDESBANK GERMANY	0.50	0.95	1.55	2.12	2.59	2.93	3.27
UK GILTS	0.71	1.18	2.03	2.68	3.34	3.85	4.17

Source: Reuters

EQUITY MARKETS	CURRENT	% CHANGE YTD	% CHANGE 52 WK	% DIV YIELDS
CAC 40	3565	-9.70	17.47	4.05
DAX	6082	-1.33	26.95	3.09
FTSE 100	5144	-5.17	23.43	3.32
DOW JONES	10198	-2.21	24.62	2.72
EPRA EUROPE	1189	-5.85	29.14	4.88

Source: Reuters, Datastream

CDS SPREADS	GER	UK	FR	IT	SP	POL	GR	POR	HUN	US
CDS 10 YEAR SPREAD (bp)	44.4	74.2	86.8	164.9	207.7	153.9	710.6	239.8	316.2	41.4

Source: Datastream, AEW Europe

NEWS TICKER

US Total Employment Outside Agriculture Decreased by 125,000 in June: The departure of 225,000 temporary census workers from the federal government's payrolls outweighed a modest increase of 83,000 in private-sector employment. The unemployment rate also edged down, by a fifth of a percentage point to 9.5% in June, largely because the labour force shrank as fewer people sought work.

Retail Sales in the Euro Area Crept Up: This was by 0.2% in May from the previous month.

Spanish Industrial Production Grew by 5.1% in the Year to the End of May: The number of people registering for unemployment benefits was nearly 84,000 lower in June than a month earlier. But the country's jobless rate rose last month to 19.9% on a seasonally adjusted basis.

Inflation in Russia Slowed to 5.8% in June: This was down from 6% in May of this year.

The Reserve Bank of India Raised Interest Rates: This happened at an unscheduled meeting on July 2nd, citing high inflation. The repurchase rate and reverse repurchase rate were each raised by 25 basis points, to 5.5% and 4% respectively. (Sources: Bloomberg, The Economist, AEW Europe)

REAL ESTATE MARKET INDICATORS

Governments Look to Property Sales to Bolster Finances: According to CBRE, sales of government-owned real estate in Europe may exceed last year's total of €840 mln as the motivation to sell public sector-owned property assets to raise much-needed capital has become strongly in light of announced deficit-reduction plans, CB Richard Ellis has predicted. The average deal size of last year's government asset transactions was generally quite small, averaging €10 mln. It is likely to be a similar story this year as buyers avoid larger buildings that carry vacancy risk, but the advisor expects the practice to be more widespread.

JLL Sees Improvement in European Direct Investment: According to Jones Lang LaSalle, the strength of economic recovery has fed through into European real estate investment activity, with transaction volumes increasing in the second quarter of 2010. Direct commercial real estate investment in Europe in Q2 2010 totaled €23 bn, marking a 15% increase on Q1, €20 bn, and 80% up on the corresponding period in 2009. The UK has led the recovery of both transaction volumes and the pricing correction amongst prime assets, and represented 40% of overall European investment volumes.

European Property Shares Accumulated Gains: After the Bank of England and European Central Bank kept benchmark interest rates unchanged in an effort to keep the economic recovery from stalling, European property shares accumulated gains last week. Great Portland Estates Plc shares climbed 3.91% to 300.30 pence, Shares of Unite Group Plc climbed 4.40%. In France, Foncière des Régions shares climbed 1.27% to €68.32, Klépierre, closed 2.25% higher at €23.64. (Sources: PropertyEU, EuropeRE, AEW Europe)

SELECTED OFFICE MARKETS

Frankfurt: Taunusturm Office Tower Construction Postponed: The 160 m tall office high-rise called "Taunusturm" will apparently not be built for the time being. Quoting the city's planning department, the daily newspaper Frankfurter Allgemeine Zeitung (FAZ) reported that Tishman Speyer has requested that the permission procedure for its recently submitted building application be suspended. The FAZ ascribed the withdrawal to loss of interest in the project by the Clifford Chance law office, which was thought to be the anchor tenant for the project. (Sources: ThomasDaily, 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 ↓	↑
MUNICH	8.6 ↓	336 →	5.10 ↓	↓
PRAGUE	13.5 ↓	228 →	6.36 ↓	↑
MILAN	11.7 →	430 →	5.28 ↓	↑

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

SELECTED LOGISTICS MARKETS

Gross Prime Yields on Logistics Properties in Hamburg, Frankfurt Airport and Munich Dropped Beneath 7% During the Second Quarter of 2010: According to Realogis, they were at 7.10% to 7.25% at end 2009. Reason for this positive development is the short supply of new buildings offering long-term leases. Yields on older storage halls and industrial buildings also fell during the second quarter since not enough core and core plus buildings were available to satisfy the increase in customer demand. (Sources: ThomasDaily, AEW Europe)

SELECTED LOGISTIC MARKETS (2009)	PRIME RENTS (€/SQM/YR)	ANNUAL TREND	YIELDS (%)	ANNUAL TREND	2009 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