

**U.S. Economy: Showing Some Signs of Recovery**

The U.S. economy is gaining traction, according to former Federal Reserve Chairman Alan Greenspan. "There is a momentum building up which is really just beginning," Greenspan said on ABC's "This Week" program. The former Fed Chairman said that the risk that the economy will retrench after recovering from the worst recession since the 1930s "has fallen very significantly in the last two months." The reason for the optimism is job creation. The US Labor Department reported that 162,000 new jobs were created in March, the best performance in three years. The gain, however, included 48,000 temporary workers hired by the government to conduct the census. Despite the large gain, the unemployment rate remained steady at 9.7 percent. The reason is that US needs to create around 100,000 new jobs every month just to keep pace with new arrivals in the workforce. The US has shed around 8.5 million jobs since the recession began. Although the Obama administration's stimulus package is credited with saving many jobs, the general public is looking for the government to take an even more aggressive stance to support business growth and job creation.

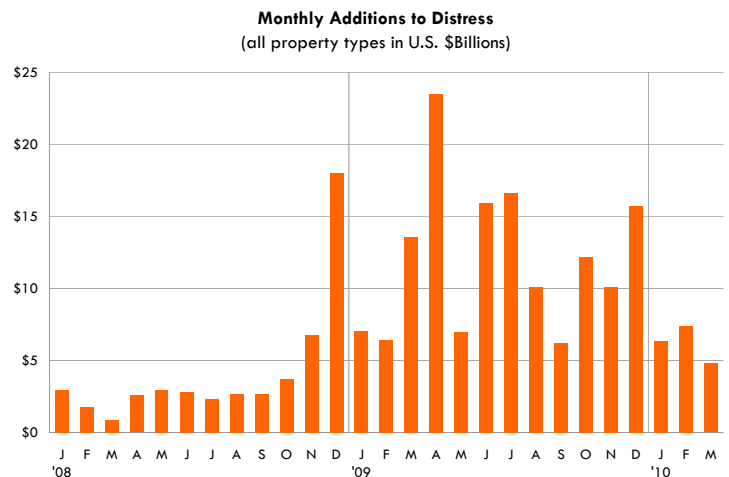
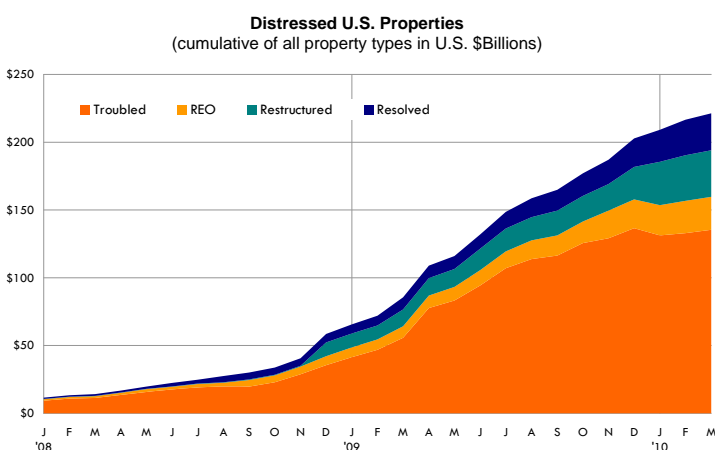
**Employment** – The Conference Board Employment Trends Index™ (ETI) rose in March for the seventh consecutive month. The index now stands at 94.4, up from February's revised figure of 93.7. The index is up 5.5 percent from a year ago. Over the past three months, all of the index's eight components have been improving. "The solid rise in the ETI and the widespread improvement across its components suggest that the March increase in employment was not a fluke and the economy is likely to continue to add jobs in the coming months," said Gad Levanon, Associate Director, Macroeconomic Research at The Conference Board. "However, we do not expect job growth to significantly accelerate in the short term, as both consumption and investment growth are likely to remain relatively weak."

**Consumer Confidence** – The Conference Board Consumer Confidence Index®, which had decreased in February, rebounded in March. The Index now stands at 52.5 (1985=100), up from 46.4 in February. The Present Situation Index increased to 26.0 from 21.7. The Expectations Index improved to 70.2 from 62.9 last month. Says Lynn Franco, Director of Research, "Consumer confidence, which had declined sharply in February, managed to recoup most of the loss in March. However, despite this month's increase, consumers continue to express concern about current business and labor market conditions. And, their outlook for the next six months is still rather pessimistic. Overall, consumer confidence levels have not changed significantly since last spring."

**Commercial Real Estate: Delinquency Rates Accelerating**

The U.S. financial system faces problems with commercial real estate loans. Depository institutions in the U.S. hold over \$1.5 trillion in commercial real estate and construction loans on their books. In addition, there are currently \$800 billion in commercial mortgage backed securities (CMBS). Over the past two years, delinquencies on these loans and securities have been rising at an alarmingly rapid rate. Approximately 4% of the \$1.5 trillion depository institutions' loans are noncurrent. In June of 2007 this ratio was about 0.5%. The delinquency rate for CMBS securities increased sharply in March by 89 basis points, rising to 7.61%, the highest in the history of the CMBS industry. One year ago, the delinquency rate was under 2%.

These mounting losses from commercial real estate loans will add significant stress to the U.S. financial system, most especially the smaller banks, but it can be managed, according to Treasury Secretary Timothy Geithner. U.S. banks are expected to incur as much as \$300 billion in losses on loans made for commercial property and development. Such losses are expected to be the primary cause of bank failures this year, which are estimated to exceed the 140 bank collapses experienced in 2009.



**Investment Outlook: Investment Sentiment Turns Favorable**

The recent appearance of positive economic indicators has turned market sentiment for CRE more favorable. Property values have already rebounded modestly from their peak-to-trough decline of almost 40%. Healthy demand exists for institutional-grade assets. The predicted wave of defaults is yet to materialize. Borrowers and lenders are still trying to buy time and salvage value by extending or modifying loans. Availability of debt is improving for stabilized properties. Although the recession is considered to be over, the economy has a long road ahead to recoup its losses. Demand for office and retail space is expected to remain weak for at least another year.