the DILWEG companies

Market Update, August 2011

U.S. Economy: *Consumer Confidence Waning*

The U.S. economy continues to be weighed down by the intractable problems of debt and jobs. Congress and the President have debated for months on a "new" solution to address these issues. The $830 billion stimulus package in 2009 was supposed to create 3.5 million new jobs and to reduce unemployment below 8%. Last week, however, the Labor Department reported that the U.S. economy had a net gain of zero new jobs in August and the unemployment rate remained stuck at an unsatisfactory 9.1%. According to *MarketWatch*, the number of people unemployed rose to 14 million in early September, including more than 6 million workers who have been out of work for 27 weeks or longer. As job prospects have worsened, consumer confidence has fallen even further. According to the Conference Board, the consumer confidence index in August fell to its lowest level since April 2009.

In effort to address these issues, the President unveiled this week his latest jobs plan. He called upon Congress to support a $447 billion package of spending initiatives and tax cuts. This latest proposal comes on top of the $4 trillion in debt that the Obama administration has already amassed for programs that critics argue have been temporary and ineffective. More than half of the President's new jobs plan consists of <u>short-term</u> payroll-tax cuts for employees and employers. The President also has requested Congress to approve more than $62 billion in spending to extend unemployment insurance benefits through 2012 and to fund programs to alleviate long-term joblessness. He also proposed $140 billion in infrastructure spending and aid to states. Economists are concerned that these latest programs are simply more of the same. Republicans believe that the best way to reinvigorate consumer/small business confidence is through <u>long-term</u> solutions --- severe spending restraint, permanent tax-rate cuts, regulatory relief and repeal of ObamaCare.

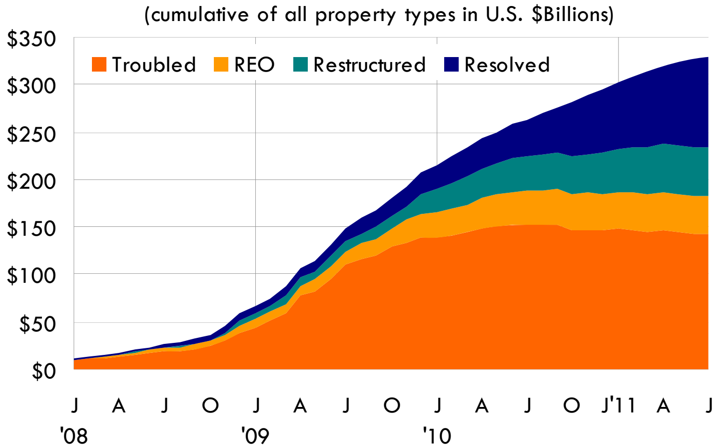
Data as of 9/2/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.2%	-6.7%	6.3%	-2.8%	-2.2%	0.4%
DJ Global Ex US (Foreign Stocks)	2.9	-9.9	3.1	-2.6	-2.0	5.0
10-Year Treasury Note (Yield Only)	2.0	N/A	2.6	3.8	4.8	5.0
Gold (Price per ounce)	4.9	33.0	50.2	32.9	24.5	21.2
DJ-UBS Commodity Index	0.9	0.1	21.7	-4.0	-1.0	4.8
DJ Equity All REIT TR Index	0.5	0.6	7.9	0.0	-0.5	9.6

Commercial Real Estate: *Office Market May Languish*

Although the economic recession has affected all property types in commercial real estate, the office sector has been hit the hardest. However, the recession was not the only cause for the office sector's severe downturn. Even before the recession occurred, the office sector was showing signs of demand weakness. The change in office demand can be attributed to three underlying trends: (1) telecommuting, (2) hoteling, and (3) the sustainability movement. In the last decade, companies have changed the criteria for making occupancy decisions. Companies are more aggressive today on controlling their occupancy costs. They want open floor plans filled with cubicles rather than the structurally partitioned offices of the past. Companies are increasingly interested in leasing office space in LEED-certified buildings, or locating in transit-oriented districts that enable employees to commute to work easily by rail, bus or bike. Analysts are concerned that these fundamental changes in office demand may prolong the recovery period for the office sector. On the positive side, construction of new office space has essentially ceased nationwide. Developers have struggled to secure debt financing and the cost to construct is simply more expensive than the cost to purchase existing inventory.

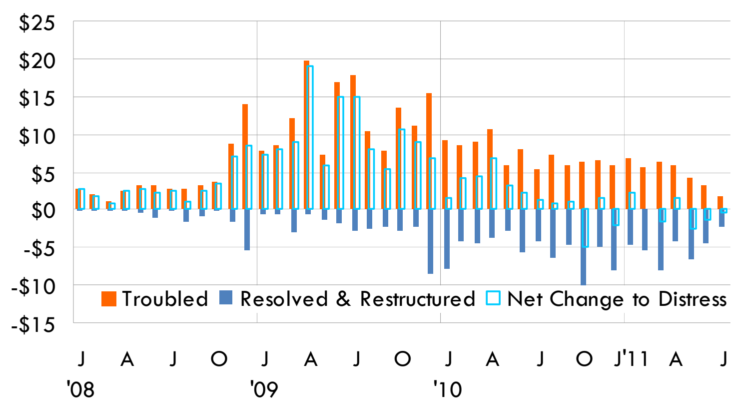
Distressed U.S. Properties

(cumulative of all property types in U.S. $Billions)



Monthly Additions to Distressed

(cumulative of all property types in U.S. $Billions)



Investment Outlook: *Challenges Present Opportunities*

Despite the turbulent markets, equity investors are not pulling back from commercial real estate. The market continues to generate strong interest in all asset classes, and demand is now growing outside of 24/7 markets and into secondary markets. Life companies continue to actively quote new loans for higher quality assets in the 50-65% LTV range. The conduit market is in disarray and specialty CMBS shops are largely on the sidelines. Until CMBS markets return, we expect that banks will push to offload loans already on their balance sheets and that new loan underwriting (sizing and pricing) will be more conservative. With these changes come opportunities for investors.