

U.S. Economy: Economy Might Slow Down

American stocks and bond yields dropped precipitously as concerns surfaced that the U.S. economy might be in for a slowdown. Driving the concerns are slumping consumer confidence, the downward revision in indicator of Chinese economic growth, and the teetering stability of European banks. Economists still believe, however, that a double-dip recession is unlikely. Economists predict that the U.S. economy will lose momentum in second half of 2010, growing more slowly than in the first half. Summary of leading economic indicators is as follows:

- *Consumer confidence dropped.* The Conference Board, a non-profit research group, reported that consumer confidence dropped in June, wiping out gains from the previous two months. The index fell to 52.9, down sharply from a downwardly revised 62.7 the month before.
- *Job creation is weak.* May payrolls data from Bureau of Labor Statistics showed far lower than expected rate of jobs growth in the private sector. This was reflected in survey respondents reporting that 44.8% think jobs are “hard to get” up from 43.9% in May. Those who think jobs are “plentiful” continued to fall, dropping to 4.3% from 4.6% in May.
- *Housing market demand is falling.* The expiration of the first-time home buyer tax credit has depleted some demand in housing sector. As a result of the slumping sales, 56% of 106 housing analysts believe that home prices will decline this year.

The U.S. Federal Reserve Chairman, Ben Bernanke, and President Barack Obama recently met to discuss the U.S. economic outlook. While both believe that the economy is on the road to recovery, they remain concerned over European troubles and U.S. job weaknesses. Fed officials believe that the positives outweigh the negatives and should keep the recovery on track, putting the Fed in position to start raising short-term interest rates some time down the road. Should the economy falter, however, the Fed would be in a predicament. With interest rates near zero today, the Fed would lack their traditional tool of interest rate cuts to stimulate capital flow. In face of uncertainty, the Obama administration is advocating an extension of unemployment benefits for laid off workers.

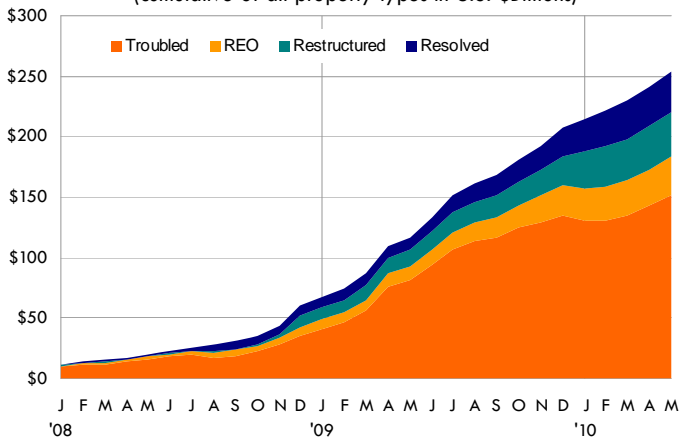
Commercial Real Estate: Deals Are on the Rise

Weakness in the economy has continued to deteriorate the value of commercial properties. Economic growth, specifically in the areas of job creation and consumer spending, will determine when commercial properties will be stabilized. In meantime, delinquency rates for loans held in commercial mortgage-backed securities (CMBS) continue to rise. They reached their highest level since 1997, according to the report issued this week. Between the fourth quarter of 2009 and the first quarter of 2010, the delinquency rate of CMBS loans at least 30 days overdue rose 1.54 percentage points to 7.24%, according to the mortgage bankers. Meanwhile, the delinquency rate of loans at least 60 days overdue and held in life company portfolios rose 0.12 percentage points to 0.31%. The rate of multifamily loans at least 60 days delinquent and held or insured by Fannie Mae rose 0.16 percentage points to 0.79%.

With approximately \$700 billion worth of loans coming due on distressed properties over the next four years, analysts predict that transaction activity should begin to intensify. Many of the loans generated at the peak of the market in 2006 and 2007 come due in 2011 and 2012. These assets are expected to warrant asset sales versus refinancing. To date, the trend has been more refinancing than asset sales. Below you will find data from Real Capital Analytics showing trends in CRE distress:

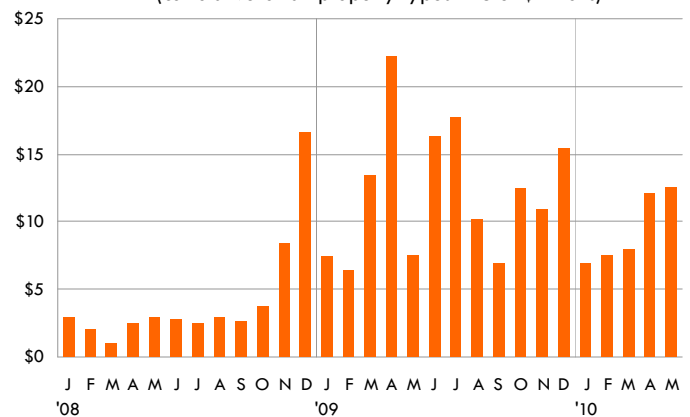
Distressed U.S. Properties

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



Monthly Additions to Distress

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



Investment Outlook: Challenge Remains to Be Valuation

Significant challenges still lie ahead for commercial real estate; the most significant being valuations. It will be difficult to predict the outlook for rents, vacancies and capitalization rates given the uncertainty of the U.S. economic recovery. Many analysts believe that market fundamentals have stabilized. Downside risk, however, will remain for commercial real estate assets in the short-term. The keys for investors will be: (1) conducting proper due diligence to understand tenant viability/turn-over risk, (2) obtaining sufficient financing to support long-term hold turnaround period, and (3) securing fair market asset pricing. The volume of investment opportunities is expected to remain modest for the balance of 2010, and then pick up significantly for 2011 and 2012.