

**U.S. Economy: Less Doom, but Gloom Persists**

Despite improving labor statistics and rebounding manufacturing indicators, the latest polls of consumers and small business owners indicate economic sentiment is not improving. On Tuesday, March 9<sup>th</sup> the National Federation of Independent Business said its optimism index for small business owners fell back in February to its December reading of 88.0, and the IBD/TIPP Economic Optimism Index dropped 3% to 45.4 in March, well below its average of the past year.

The reason cited by business owners was “poor sales.” Consumers are not spending because they are not sure they will have a paycheck next month. Conversely, businesses won’t hire or expand operations because they are not confident sales will increase next month. In order for the U.S. economy to gain inertia, both consumers and businesses need to outlay capital in chorus.

**Unemployment** – The U.S. Bureau of Labor Statistics reported that non-farm payroll employment edged down by 36,000 in February. This figure was well below the estimated drop of about 75,000. The unemployment rate held steady at 9.7%, better than the 9.8% rate economists expected.

**Manufacturing** – The Institute for Supply Management reported that the manufacturing sector grew for the seventh consecutive month during February. While new orders and production were not as strong as they were in January, they still show significant month-over-month growth. The 11 manufacturing industries reporting growth in February are: Machinery; Paper Products; Apparel, Leather & Allied Products; Computer & Electronic Products; Miscellaneous Manufacturing; Transportation Equipment; Textile Mills; Plastics & Rubber Products; Electrical Equipment, Appliances & Components; Fabricated Metal Products; and Food, Beverage & Tobacco Products.

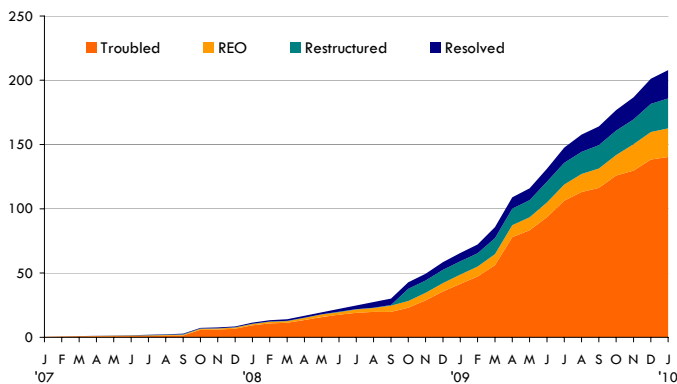
**Housing** – The number of homes listed for sale increased in many metropolitan areas in February. The supply of homes available for sale in 27 major metropolitan areas at the end of February was up 4.2% from a month earlier, according to figures compiled by ZipRealty Inc., a real-estate brokerage firm based in Emeryville, CA. On a national basis, inventories typically rise in February from the January level as people put houses on the market in anticipation of the busy spring home-shopping season. Over the past 27 years, the average increase in February has been 3.4%, according to Ivy Zelman, chief executive of Zelman & Associates, a research firm.

**Commercial Real Estate: Staggering Mountains of Debt**

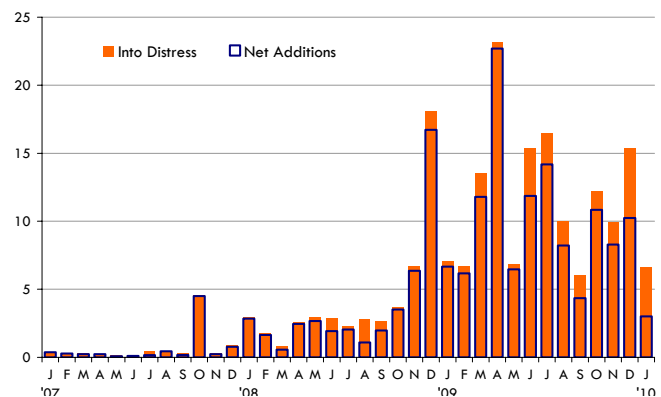
Some \$1.2 trillion in commercial real estate debt is set to mature over the next three years, and on mostly overvalued assets. Lenders and their appointed special servicers have three primary options: extend at same terms, alter the terms, or foreclose. Lenders are beginning to explore non-traditional alternatives; for example, encouraging their owners to purchase their own notes at a discount. Workout options just depend upon the individual financial position of the owners and the specific conditions of the asset. Owners that have long-term relationships with borrowers are being given greater latitude. The vast majority of loans that matured in 2009 were extended without new equity contributed. Moving forward, however, lenders will likely require “fresh equity” to renew or restructure loans.

According to New York-based Real Capital Analytics (RCA), \$207 billion in properties have fallen into default, foreclosure or bankruptcy and \$47.6 billion have exited the distress pool. Half of the assets have exited due to a restructuring/modification of the existing mortgage and the other half were resolved through a sale or recapitalization. Both strategies are on the rise.

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



**Monthly Changes to U.S. Distress**  
(cumulative of all property types in \$Billions)



**Investment Outlook: Banks Ready to Take Action**

Lenders are coming to grips with the condition of their portfolio holdings. They are gaining clarity from federal regulators on acceptable methods for handling workouts. With advancements on these two fronts, lenders will be able to pick up the pace of restructurings and loan resolutions in 2010. According to preliminary data from Real Capital Analytics, resolutions in February 2010 already exceed those for any month in 2009 and are well in pace to surpass January’s \$2.3b. We anticipate the activity to increase significantly in the months to come.