U.S. Economy: *Economists Predict Continued Improvement*

The U.S. gross domestic product is expected to expand by 3.2% in 2010 and 2011, according to a report released by the National Association for Business Economics earlier this month. Despite concerns for the European debt crisis, the 46 economists surveyed believe the outlook for the U.S. economy has improved. The basis for their conclusions is as follows:

- *Consumer spending is increasing.* The U.S. savings rate should average 3.4% this year, down from a 4.6% forecast just three months ago. The economists predict that consumers, confident that the recession is behind them, will increase their spending.
- *Unemployment rate is falling.* The economists surveyed predict that the unemployment rate will fall from 9.9% in April to 9.4% at the end of this year and to 8.5% by the end of 2011.
- *Job growth is increasing.* The U.S. economy in April added jobs at the fastest pace in four years, with strong employment gains in the private sector.
- *Business investment is increasing.* Large companies are reinvesting profits into equipment and software. Smaller companies, who previously struggled to find credit for expansion following the financial crisis, are now seeing easing of credit conditions.
- *Inflation is expected to remain low.* The economists predict that the Federal Reserve's benchmark lending rate will rise to just 0.5% at the end of 2010, compared with a February prediction that the lending rate would rise to 0.75% by end of the year.

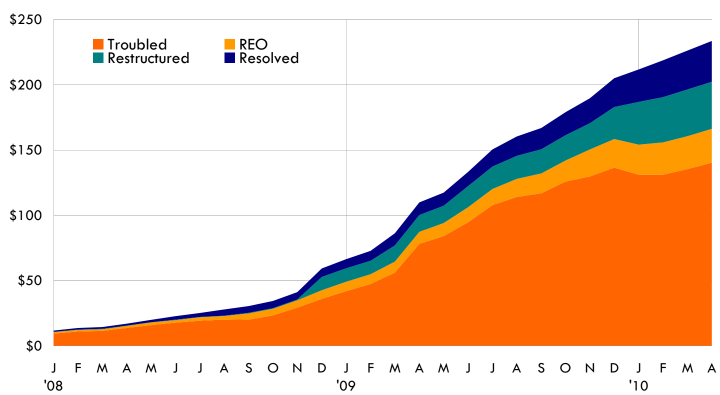
The growth trajectory of the U.S. economy appears to be solid, despite the growing concern for the European financial troubles. The Federal Reserve Bank of St. Louis President, James Bullard, released a statement to help calm investors' fears. Bullard stated, "…the world has seen these types of events before, and there is nothing intrinsic about such crises that they need to become important shocks to the broader, global macro-economy." Bullard added, "Major nations have made it clear over the course of the last two years that they will not allow major financial institutions to fail outright at this juncture. Since these too- big-too-fail guarantees are in place, the contagion effects are much less likely to occur."

Commercial Real Estate: *Investors Starting to Queue Up*

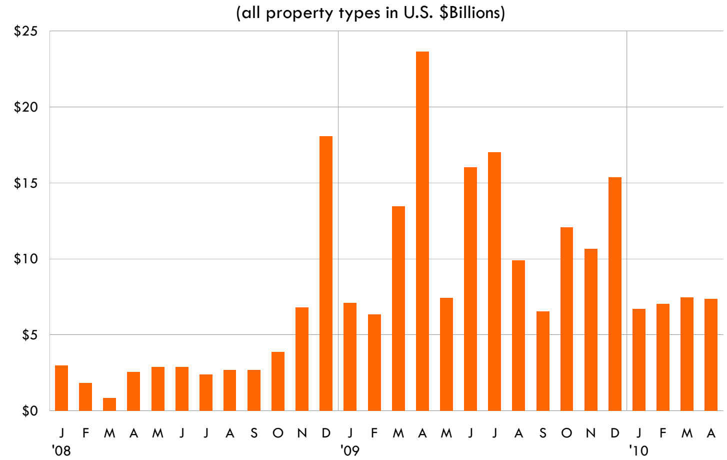
The tone of the commercial real estate market has shifted in the first quarter of 2010. Despite the uncertainty of the U.S. economy, smart capital is starting to queue up. The reason for the turnaround is as follows:

- *Capital is flowing again.* The Mortgage Bankers Association reported that the amount of commercial mortgages originated in the first quarter of 2010 rose 12% from a year earlier. Although the level still remains low, it is a marked improvement.
- *More favorable debt terms.* Lenders are focusing on Class-A properties with stable income streams. Competition for such deals is increasing. The result is tighter spreads and more favorable terms for borrowers.
- *Decline in property values has stopped.* Prices appear to have bottomed out and are starting to slowly move back up again. Capitalization rates are starting to decline, especially for high quality properties in superior 24/7 markets.
- *Market fundamentals are improving.* After more than 2 years of deteriorating conditions, the economy appears to be rebounding. Job production is increasing and consumer spending is improving. Vacancies are yet to peak; however, the free fall is slowing.
- *Commercial banks continue to struggle with problem loans.* Real estate loans have caused more than half of U.S. banks' loan losses during the financial crisis. Banks are making every effort to avoid foreclosures; however, time and extension options are limited.

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



Monthly Additions to Distress
(all property types in U.S. $Billions)



REAL CAPITAL ANALYTICS

Investment Outlook: *Acquisition Activity Expected to Increase*

There are a lot of new investment funds being formed now by investors who are looking to invest and buy either loan portfolios or buildings. Property values are estimated to have fallen by about +/- 40% (Moodys) from their peak and appear to have bottomed out. With the economy showing signs of improvement, investors from the U.S. and abroad have moved into acquisition mode. Activity is expected to heat up in the coming months.