Market Update, November 2011

U.S. Economy: *Making Modest Improvements*

The U.S. economic recovery is inching in the right direction; however, the growth will need to rise sharply for the U.S. to reverse the damage caused by one of the worst recessions in history. Last month, the U.S. economy created 80,000 jobs on top of 158,000 jobs added in September. The job growth helped the unemployment rate in October move down slightly from 9.1% to 9.0%. Two years into the recovery, the economy has added just 2.3 million of the nearly 8.8 million jobs lost during the recession. High unemployment is expected to persist through the 2012 election. President Obama continues to push Congress toward passing his American Jobs Act, which would cut payroll taxes, renew an unemployment benefits extension and offer programs to help the long-term unemployed. Republicans, however, are countering Obama's proposal with a plan of their own. While the debate rages on stateside, Europe faces its own set of challenges. Although Greece is grabbing most of the headlines, Italy's sovereign debt crisis is much more significant to the world markets. Italy's government bond market is the third largest in the Eurozone behind Germany and France. If Italy follows the path of Greece, the European crisis will intensify dramatically and have global implications.

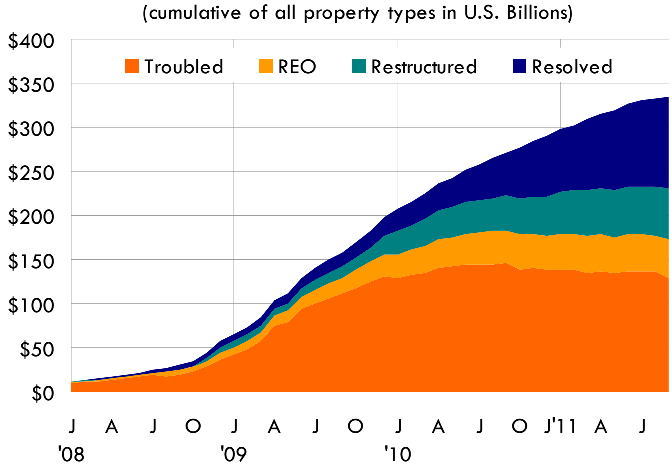
Data as of 11/18/11	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-3.8%	-3.3%	1.3%	12.3%	-2.8%	0.5%
DJ Global Ex US (Foreign Stocks)	-3.9	-16.5	-13.8	12.0	-4.0	4.4
10-Year Treasury Note (Yield Only)	2.0	N/A	2.9	3.5	4.6	4.8
Gold (Price per ounce)	-3.0	21.9	27.3	32.6	22.4	20.2
DJ-UBS Commodity Index	-2.7	-10.8	-1.1	5.8	-2.9	4.9
DJ Equity All REIT TR Index	-3.2	1.8	7.6	27.0	-2.3	9.9

Commercial Real Estate: *CRE Weighs Down Banks*

Commercial real estate distress is placing an inordinate amount of pressure on banks and is pushing many to the brink of collapse. Between 2000 and 2004 there were a total of 18 bank failures in the United States. Since the recession began in 2007, there have been 393 bank failures. Trepp LLC, a commercial mortgage data firm, released this week a report highlighting the drag of CRE loans on bank performance. According to Trepp LLC, 85 banks have failed this year alone. Troubled CRE loans accounted for more than 65% of the problem loans among the 11 banks that failed in October. Most of the October bank failures were located in the Southeast --- three in Georgia, one in Florida and one in North Carolina. The Southeast bank failures are attributed to the large number of small banks with a high exposure to construction and land loans. Trepp estimates that 100 banks will likely fail this year, or about 36% fewer than the 157 that collapsed last year. The challenge for banks, however, is that the economy is not improving fast enough. Billions of dollars of new properties are expected to fall into default each month. The delinquency rate for commercial mortgage-backed securities has rocketed from under 1.0% in 2007 to now over 9.8% in October 2011. This marks the second highest level in history, according to Trepp, LLC. To offset the mounting pressure, banks and special servicers are now starting to ramp up their dispositions. Special servicers have sold $11.6 billion in distressed loans and foreclosed property in the past 12 months, according to Deutsche Bank. That's up from $7 billion over the previous 12-month period. These assets are being sold at significant losses. Deutsche Bank estimates that bond investors incurred an average loss of 38% on the assets sold this year.

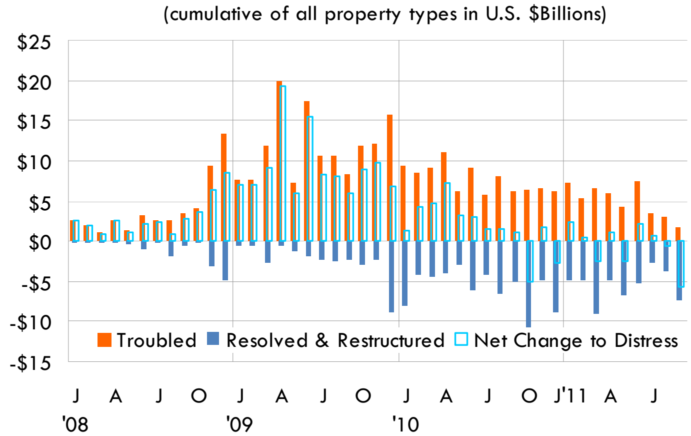
Distressed U.S. Properties

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



Monthly Additions to Distressed

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



Investment Outlook: *Volume of Distress Rising*

Opportunities for investors are on the rise as lenders and servicers are disposing of a growing volume of distressed loans and foreclosed properties. The next three years is going to see an ever-increasing volume of loans going into default. Buyers are pleased to see the volume finally start to appear. Many investors pooled funds in the early years of the downturn in anticipation of buying discounted properties. However, until recently, there simply wasn't much for sale. The early sales volume came in large blocks of assets sold to major private equity firms. According to Deutsche Bank, most of the loans and properties being sold moving forward will be small, with an average size of $8.4 million.