

# COLLIERS INTERNATIONAL VALUATION & ADVISORY SERVICES

## WEEKLY MARKET RECAP



### Week @ A Glance

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Along with a drop in the unemployment rate below 9.0% to 8.6%, the Federal Reserve's balance sheet shrunk for the first time since 2009.

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## Macro Economic & Real Estate News

K.C. Conway, MAI, CRE, CIVAS Market Analytics

In response to subscriber feedback, this week's edition introduces a new section. Going forward, each edition will commence with a section titled: *Standout Statistics*.

This section will deliver an abbreviated overview of all the noteworthy economic and commercial real estate news of the prior week which feeds into the Bulls, Bears & Bewildered Scoreboard. This new component should deliver a quick view of all that happened before it's sliced and diced into the respective Bulls, Bears and Bewildered sections. Your input is appreciated - and never ignored. Welcome to the Standout Statistics.

### Standout Statistics

Let's start out with the extraordinary. Along with a drop in the unemployment rate below 9.0% to 8.6%, the Federal Reserve's balance sheet shrunk for the first time since 2009, and Tiger Woods won a golf tournament after a 749 day drought. On the banking and real estate fronts, the extraordinary statistics were:

- **Bank of America losing its top ranking** as the nation's largest bank in terms of assets to JP Morgan; and
- **A record price set for an office building** in Houston at \$527 per square foot - look out Boston.

It has been a dizzying two weeks of data on all fronts, including but not limited to, auto sales, earnings, employment, GDP, home sales, housing prices, manufacturing output, and municipal debt. The following is a complete look at the Standout Statistics for the prior two weeks:

### Airlines - AMR Files For Bankruptcy Protection

American Airlines, the nation's third largest airline, filed for Chapter 11 bankruptcy protection on November 29th after racking up a reported \$10 billion in losses since 2001, conceding that

its \$800 million per year labor costs compared to its peers is unsustainable. Despite the news, business was as usual for all airports, as AMR calmed passengers with news that it has \$4.1 billion in cash on hand to keep operating and is only following the path of its peers who all used bankruptcy in the past decade to realign costs. Just as Atlanta chugged through Delta's bankruptcy (2005-2007), so too will Dallas, Chicago, and South Florida - American Airlines' three primary hubs. There does not yet appear to be any measurable economic impact or penalty to property values for AMR hub markets.

### Map of Top 4 U.S. Airline Hubs



[en.wikipedia.org](http://en.wikipedia.org)

### Auto Sales Rose 14% in November

The annual rate, that now exceeds 13 million units, rose 14% to 994,721 units in November. According to Autodata Corp., November auto sales were the best since August 2009. At November's pace, U.S. auto sales could hit 13.6 million units in 2012. What's driving the sales? It's a combination of Americans needing to replace an aging fleet that now exceeds 10 years in average age, and low interest rates. Small cars (14.3% increase over Oct. 2010, accounting for 35% of all sales) and Mid-size SUVs (sales up 48.1%, accounting for 10% of total vehicle sales) are the best selling vehicles.

**Bank Earnings & Rating Agency Downgrades**

At a time when the U.S. banking industry reported \$35.5 billion in earnings (a 50% increase over Q3 2010), S&P downgraded 15 global banks – of which 6 were the largest U.S. banks. The U.S. downgrades included J.P. Morgan Chase & Co., Bank of America Corp., Citigroup Inc., Wells Fargo & Co., Goldman Sachs Group Inc. and Morgan Stanley. How does one reconcile such an improvement in earnings with a rating downgrade? **The answer lies in the source of the earnings – reductions to loan loss reserves and accounting gimmickry like Debt Valuation Adjustments (DVAs).** The rating agencies and markets are focused on the following:

*Although the U.S. banking industry set aside \$18.6 billion to cover losses in Q3 2011, that level of provision was 47% less than in the third quarter of 2010. It was also the lowest amount set aside since Q3 2007. The market just isn't buying the earnings head-fake absent real loan growth.*

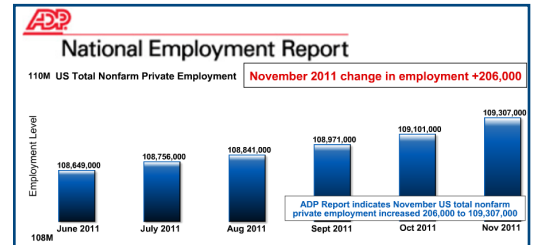
**Construction Activity**

Total Construction activity is down 3.5% YOY: Other than a mere \$60 billion in lodging, health care, religious, recreation, and manufacturing construction (approximately 10% of Total U.S. Construction activity), all aspects of U.S. construction activity contracted in the fall of 2011. While this is good news for existing commercial real estate working through excess supply, it is not encouraging news for the U.S. economy and 2012 GDP.

**MAJOR U.S. BANKS DOWNGRADED:**

**J.P. MORGAN, CITIGROUP, WELLS FARGO, GOLDMAN SACHS, & MORGAN STANLEY.**

The increase in November was the largest monthly gain since last December – and nearly twice the average monthly gain since May, when employment creation decelerated sharply. Where are the jobs being created in the private sector? According to ADP, over half are from small businesses in the service-producing sector.



**Challenger-Gray-Christmas Job Cuts Report**

The number of planned layoffs announced in November remained virtually unchanged from the previous month, as U.S.-based employers reported job cuts totaling 42,474. Who is cutting jobs? Government (now more Federal level cuts than state and municipal government), financial services, and retail (despite the stellar Thanksgiving holiday sales figures) are the top 3 industry sectors shedding jobs.

**CHALLENGER, GRAY & CHRISTMAS, INC. Job-Cut Announcement Report**

Top Five Industries (Year-To-Date)	2011	2010
Government/ Non-Profit*	180,881	138,979
Financial	56,191	21,430
Retail	48,338	33,814
Aerospace/Defense	34,354	17,981
Health Care/ Products	23,812	26,612

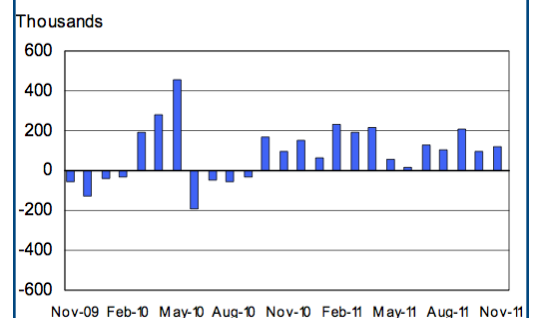
Category	Nov. 2010	Sept. 2011	Oct. 2011	Nov. 2011	Change from: Oct. 2011 - Nov. 2011
<b>Employment status</b>					
Civilian noninstitutional population.....	238,715	240,071	240,269	240,441	172
Civilian labor force.....	153,950	154,017	154,198	153,883	-315
Participation rate.....	64.5	64.2	64.2	64.0	-0.2
Employed.....	138,909	140,025	140,302	140,580	278
Employment-population ratio.....	58.2	58.3	58.4	58.5	0.1
Unemployed.....	15,041	13,992	13,897	13,303	-594
Unemployment rate.....	9.8	9.1	9.0	8.6	-0.4
Not in labor force.....	84,765	86,054	86,071	86,558	487
<b>Unemployment rates</b>					
Total 16 years and over.....	9.8	9.1	9.0	8.6	-0.4

**Employment**

ADP, Challenger-Gray, Monster and the BLS all say things are improving on the jobs front:

- **ADP** Last Wednesday, ADP reported on job creation for the private sector. Its data indicates that employment in the U.S. nonfarm private business sector increased by 206,000 from October to November on a seasonally adjusted basis.

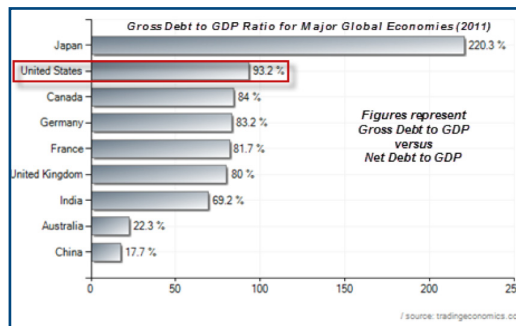
**Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, November 2009 – November 2011**



How did the BLS accomplish this feat? **It reduced the number of people in the workforce by 315,000.** Isn't government math wonderful?

**Federal Reserve Balance Sheet**

The Fed's balance sheet did an extraordinary thing since the onset of the financial crisis – it shrank a bit. For the period ending November 16th, the FED's balance sheet shrank to \$2.814 trillion from \$2,822 trillion. What caused the contraction? The FED's ownership of mortgage bonds guaranteed by Fannie Mae, Freddie Mac and the Government National Mortgage Association (Ginnie Mae) declined from \$849.3 billion to \$841.98 billion. It's doubtful this shrinkage is permanent or enough to dissuade the rating agencies and foreign holders of our debt from viewing the U.S. in debt reform mode. Just take a look at the GDP to Gross Debt ratios for the world's dominant economies in Asia, India, Europe, Australia, and North America.



The FED may want to shrink its balance sheet further if Congress doesn't act soon to reduce our deficit spending. Although we're not yet in a situation similar to Japan, we're approaching 100% Gross Debt to annual GDP!

**GDP**

The Bureau of Economic Analysis revised Q3 GDP downward to 2.0% from 2.5% as we prepared our Thanksgiving meals. What was the drag? Reductions in state and municipal spending and private inventory investments. In other words, states and municipal governments are cutting capital spending and businesses are not restocking depleted inventory as quickly.

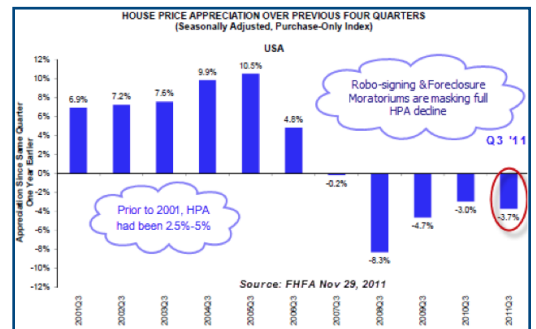
**Housing**

New Home sales were up a tad from 302,000 annualized units in September to 307,000 in October. The Midwest improved and the South – well it went south in terms of new home sales. Pending Home Sales were more encouraging and surged 10.4% in October. Pending Home Sales rise (primarily due to a backlog of mortgage requests not clearing appraisal and

underwriting hurdles), and then collapse three to six months later as home buyers grow weary of the extended mortgage process and cancel contracts. Where were pending home sales the strongest and weakest? Just as in new home sales, the Midwest surged and the South went south.

**Home Price Appreciation**

While we may appreciate the roof over our heads, that roof is not yet increasing in value. According to the FHFA, on a YOY basis HPA declined another 3.7%. Later in the Bulls, Bears and Bewildered, detail will be provided on those states with home price appreciation (led by energy and agricultural producing states, such as North Dakota, Wyoming, Iowa, Nebraska and South Dakota).



**ISM Manufacturing Activity**

Manufacturing remains the "little engine that could." According to the nation's supply executives in the latest Manufacturing ISM Report On Business®, economic activity in the manufacturing sector expanded in November for the 28th consecutive month. The "glass half empty" perspective is that November's 52.7 reading is the fifth lowest reading of CY 2011 – and down substantially from the 60+ readings in January through April. Austerity measures being implemented in Europe in 2012 will have a material impact on both the Q1 2012 readings for U.S. manufacturing and GDP.

Month	PMI	Month	PMI
Nov 2011	52.7	May 2011	53.5
Oct 2011	50.8	Apr 2011	60.4
Sep 2011	51.6	Mar 2011	61.2
Aug 2011	50.6	Feb 2011	61.4
Jul 2011	50.9	Jan 2011	60.8
Jun 2011	55.3	Dec 2010	58.5
Average for 12 months – 55.6			
High – 61.4			
Low – 50.6			

*THE FED MAY WANT TO SHRINK ITS BALANCE SHEET FURTHER IF CONGRESS DOESN'T ACT SOON TO REDUCE OUR DEFICIT SPENDING.*

### Industrial Commercial Real Estate

Industrial real estate has been the one commercial property type slow to experience cap rate compression due to uncertainty about the U.S. economy. Now, capital sources are turning to industrial real estate for yield as cap rate compression in multifamily has eroded to sub 4.0% levels. Investor interest in U.S. warehouses is strongest in core port and inland distribution markets located in California (least exposure to Europe), along the Gulf Coast (greater exposure to energy and emerging markets) and the primary inland distribution markets with developed intermodal systems (Atlanta, Chicago, and Dallas). The top 10 U.S. markets for industrial real estate transactions according to Q3 2011 RCA data are:

Top US Markets for Industrial Sales Q3 '10 - Q3 '11		
Rank	Market/MSA	Volume (millions)
1	Los Angeles	\$2,828
2	San Francisco	1,342
3	New York City	1,279
4	Chicago	1,155
5	Dallas	949
6	Washington D.C.	867
7	Miami/South Florida	790
8	Las Vegas	786
9	Atlanta	732
10	San Diego	625

### Office Commercial Real Estate – Record Prices

Similar to industrial commercial real estate, office properties are in high demand in core “gateway” markets (like New York, Chicago, Houston and San Francisco) and education-center MSAs, such as Boston, Washington D.C., Denver, and Seattle. As the supply of office buildings leased to credit tenants in these core markets fails to meet demand, especially from international and institutional capital sources, demand is transitioning out to select secondary MSAs. This demand can best be exemplified by a couple of office transactions revealed in the past two weeks: a record \$527 per square foot price fetched by Hess Tower in downtown Houston; and the Empire State Building being sold to a planned REIT at a reported 5.0% cap rate. At the end of Q3 2011, the 5 most active MSAs with respect to office property transactions were:

Top US Markets for Office Sales Q3 '10 - Q3 '11		
Rank	Market/MSA	Volume (millions)
1	NYC Metro	\$19,898
2	DC Metro	7,984
3	Chicago	5,057
4	SF Metro	4,982
5	LA Metro	4,732

### Retail Commercial Real Estate

On the surface, Black Friday, Small Business Saturday and Cyber Monday retail sales over the Thanksgiving weekend were stellar. According to comScore, e-commerce spending jumped 26% on Black Friday. Black Friday web sales totaled \$816 million, up from \$648 million a year ago. Additionally, ICSC’s November Chain-Store Sales increased 3.2%. However, Q3 retailer earnings and newly announced store closings reveal that the record Thanksgiving retail traffic is not shared equally among all retailers. Macy’s and Wal-Mart, for example, appear to be outperforming JC Penney and Target in the department and discount store space. And, no amount of retail traffic appears to be aiding footwear sales.

Famous Footwear has announced it will close between 70 and 75 Famous Footwear stores in fiscal 2011 and 2012, for a total of about 145 store closures. And, Collective Brands Inc., parent of Payless Shoe Source, reported last week the company will shutter 475 underperforming stores in the next three years – 400 Payless stores in the United States, Canada, and Puerto Rico and 75 Stride Rite Children’s stores. Regardless of the interpretation of Q3 retailer earnings or Thanksgiving sales figures, net margins will be the topic de jour in Q1 2012. Based on promotions and discounting, retailer margins are under pressure and will likely result in more – not less – retail stores closing in 2012.

### State & Municipal Debt

As a Pennsylvania judge approved the takeover of Harrisburg, PA giving a receiver from the governor’s office the power to end a stalemate between the mayor and the city council over the city’s financial crisis, news on New Jersey and Detroit’s fiscal crises garnered more attention last week. New Jersey’s existing debt has grown another 3.1% due to increased interest expenses resulting from its April bond downgrade; and its total obligations, which include pension and post-employment benefits, have increased another 12.0% to \$65 billion.

According to a recent 2011 State Debt Medians report from Moody’s Investors Service, New Jersey has the third highest total debt among U.S. states – behind California and New York. New Jersey’s total debt as a percentage of 2010 personal income is now the fourth-highest, at 7.9%. On the municipal front, Detroit is lining up to be the next largest U.S. municipal bankruptcy displacing Jefferson County/Birmingham, Alabama.

**NEW JERSEY HAS THE THIRD HIGHEST TOTAL DEBT AMONG U.S. STATES – BEHIND CALIFORNIA AND NEW YORK.**

According to a statement by Michigan's Treasurer last week, Detroit's finances will be given a preliminary review by state officials starting Dec. 6th in what may be the first step toward the appointment of an emergency manager. Detroit, the nation's 18th largest MSA, faces a \$44 million cash shortfall by June, on

top of an accumulated \$155 million deficit. Detroit faces \$400 million in penalties if an emergency manager is put in charge, because of swap agreements made with two banks that helped Detroit borrow money in 2009. Stay tuned - the state and municipal debt crises are in the early stages.



## The Score Board

WEEK ENDING	BULLS	BEARS	BEWILDERED
December 2	7 ★	6	6
November 16	6	4	8 ★
October 28	4	4	3 ★
October 14	4	5 ★	4
4-Week Avg.	5.3	4.8	5.3 ★

ALTHOUGH MUCH OF THE MOST RECENT EARNINGS, EMPLOYMENT, HOUSING, AND RETAIL SALES DATA ARE BUILT ON ACCOUNTING GIMMICKRY, MAGICAL GOVERNMENT MATH (SHRINK THE COUNTED WORKFORCE TO REDUCE UNEMPLOYMENT), AND NEAR ZERO PROFIT MARGINS, WHERE THERE IS BULL WE SHOULD SCORE ONE BULLISH. LET'S SCORE THIS PAST PERIOD BULLISH AND GIVE THANKS THAT AMERICANS ARE BUYING NEW HIGHER MILEAGE CARS REDUCING OUR DEPENDENCE ON FOREIGN OIL; AT LEAST 307,000 PEOPLE ARE BUYING NEW HOMES; THE FED HASN'T GROWN ITS BALANCE SHEET TO \$3.0 TRILLION...YET; AND OUR OFFICE AND WAREHOUSE COMMERCIAL REAL ESTATE IS IN DEMAND ONCE AGAIN.

### STATISTIC(S), QUOTE(S) & HEADLINE(S) FOR THE WEEK

#### The Statistic(s) of the Week

Positive energy despite negative equity describes the three statistics making this week's final cut for Statistic of the Week. The respective statistics are:

found that the annual savings net of initial costs averaged \$2,800 per year. Colliers' appraisers have been involved in the valuation of regional shopping malls in the past year that indicate similar cost savings. Changing the light bulbs out is just one of many bright ideas contributing to our nation's energy independence.

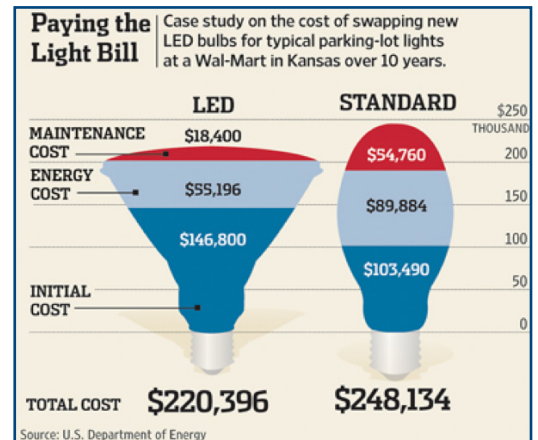


#### 3.1 Million Barrels A Day

The U.S. is on track to be a net exporter of petroleum products in 2011 for the first time in 62 years. In September, the U.S. exported 3.1 million barrels of petroleum products per day compared with 2.1 million barrels of imports. The U.S. sent abroad 753.4 million barrels of everything from gasoline to jet fuel in the first nine months of this year, while it imported 689.4 million barrels.

#### \$28,000

The U.S. Department of Energy just published a 10-year case study involving the savings from converting to light bulbs built around light-emitting diodes at a Wal-Mart in Kansas and



**TOGETHER,  
NEGATIVE EQUITY  
AND NEAR-  
NEGATIVE EQUITY  
MORTGAGES  
ACCOUNTED FOR  
27.1% OF ALL  
RESIDENTIAL  
PROPERTIES.**

### 22.1% or 10.7 Million Residential Properties

CoreLogic released negative equity data last week showing that 10.7 million residential properties with a mortgage were in negative equity at the end of the third quarter of 2011 – or 22.1% of all homes with a mortgage. Although this overall figure is down slightly from 10.9 million properties, or 22.5%, in the second quarter of 2011, an additional 2.4 million borrowers had less than 5% equity, referred to as near-negative equity, in the third quarter.

Together, negative equity and near-negative equity mortgages accounted for 27.1% of all residential properties with a mortgage nationwide in the third quarter of this year.

### The Quote(s) of the Week

A pair of quotes go hand-in-hand for this week's Quote of the Week. Both quotes relate to New York headquartered banks with heavy involvement in commercial real estate. The quotes tell a tale of two different stories in commercial real estate lending. The respective quotes are:

*"Such deals are frequently viewed, particularly in the business community, as a cost of doing business imposed by having to maintain a working relationship with a regulatory agency, rather than as any indication of where the real truth lies."*

- U.S. District Court Judge Jed S. Rakoff in his decision to reject the SEC's proposed \$285 million settlement with Citigroup over allegations the bank misled investors in the sale of a CDO that went "kabloolie."

*"I want to know what's going on."*

- 77-year old Robert Wilmers, chief executive of M&T Bank Corp. in his explanation of what keeps M&T on top of its game and why he is so visible, accessible and hands-on involved with every aspect of M&T Bank's operations

These two quotes highlight the essence of all that is at once good and problematic in the U.S. banking industry today. On one hand, you have a judge recognizing that settlement deals between banks and their respective regulators have strayed from the truth and become a mere cost of doing business to present a façade of safety and soundness that doesn't exist. Hurray to Judge Rakoff for demanding that the regulators step up and prove their case and halting the extortion of yet just another fine from Citi; and hurray to Robert Wilmers for recognizing that the public and harmed investors want and need to know the truth in order to restore investor confidence. On the other hand, you have the

profile of a bank CEO who has guided a New York based bank to a position of one of the best managed in the U.S. Although it has a mere \$78 billion in assets compared to its New York peers with hundreds of billions more in assets, M&T Bank has weathered the financial crisis without any bailout, robo-signing scandal, or mortgage put-backs – and it has grown throughout the financial crisis on a balanced lending diet that included commercial real estate. What is the difference? Maybe it's being sized under \$100 billion in which all can be measured, monitored and managed? Maybe it's 20% ownership of the bank by employees. Or, maybe it is having a CEO that "wants to know what is going on" and sticks to a pretty simple banking business model: *"Being a superefficient plain-vanilla lender in our communities, where our pricing is relatively conservative..." and keeping strong the basic pillars of any bank: loans and deposits."*

Whatever the winning recipe, it's hard to argue with M&T Bank results highlighted in a December 1st American Banker feature titled: *Throwback Approach Keeps M&T On Top*. The results included having the lowest loan losses since 2008 among the country's top 20 commercial banks. "Its shares trade at a relatively robust two times tangible book value, whereas most banks are lucky these days if they're trading at or just over book. Its stock market performance is the best among the 100 biggest banks trading in the U.S. since 1983. It has posted a 19.3% annual return since 1980, and outperformed the Standard & Poor's bank index by 64% over the past 10 years."

### The Headline(s) of the Week

There was no dearth of noteworthy headlines to select from for this week's Headline of the Week. Whether it was bankruptcies (American Airlines and the mortgage insurer PMI), U.S. District Court Judge Jed S. Rakoff's decision to reject the SEC's proposed \$285 million settlement with Citigroup over CDO's gone bad, the drop in the unemployment rate to 8.6%, GDP being revised down 50 basis points to 2.0%, or an office building in Houston selling for a record price approaching the \$600 per square foot prices found of late only in Boston and New York, there were noteworthy headlines to choose from. The pair of headlines that made this week's cut relate to a governmental entity at the forefront of this banking crisis. The headlines are:

#### **Fed Details New Round of Stress Tests...**

*American Banker – November 22, 2011*

#### **Fed Names New Head of Bank Supervision**

*American Banker – November 30, 2011*

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**AT COLLIERS, WE  
CAN ASSIST WITH  
BOTH YOUR TESTS  
AND POST TEST  
RESPONSES TO  
THE FED IN Q1  
2012.**

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These two headlines likely escaped notice amidst the previously detailed Standout Statistics over the Thanksgiving holiday. However, they're both quite material to the future of bank capital available to the U.S. economy and real estate industry in 2012. At a time when U.S. banks are tepid about extending credit and have resorted to raiding the Allowance for Loan and Lease Losses (ALLL) and accounting gimmickry (DVAs) to put forth an appearance of profitability, the FED is putting the banks through a new round of stress tests this month to be concluded by January 5th. These tests will likely result in banks curtailing dividends, again, to rebuild capital raided from the ALLL over the prior 5 quarters. These stress tests will be interpreted by a new head of bank supervision that is a career academic with virtually no industry or bank supervision experience. Is it any wonder the banking industry is getting such traction for a proposed piece of legislation (HR 3461 aka The Financial Institutions Examination Fairness and Reform Act) to level the regulatory playing field?

Bankers and borrowers beware of the new bank supervision sheriff at the FED, and the market response to the FED's next round of stress tests. Increasingly, the public is growing skeptical of bank stress tests as they seem to be largely, as described in a CRE Stress Testing spotlight article from Knowledge Leader earlier this year:

*"Largely psychological in nature created primarily to calm the markets and convince the public that more Lehman-type failures were not looming, nor is another 1933-style banking crisis."*

As Europe adopted similar stress tests, and the markets have observed that these tests have done little to answer substantive questions, like how much exposure do banks have to European debt, or to prevent the emergence of new Lehman bank scenarios (Dexia, MF Global, etc.).

The market is losing confidence in the regulatory regime and the effectiveness of bank stress tests. Let's hope the new government math being applied to employment data (just eliminate that which makes the ratio appear bad) doesn't spill over to the bank stress tests. A fear is that Pat Parkinson's retirement from the FED as head of bank supervision and the decision to make Mike Gibson - a young deputy director in the Fed's Division of Research and Statistics with no bank supervision or industry experience - the new sheriff is analogous to Andy Taylor putting deputy Barney Fife in charge. To our bank colleagues, cram for these stress tests. At Colliers, we can assist with both your tests and post test responses to the FED in Q1 2012. Don't be surprised if the FED comes looking for the rest of their TARP funds from the 380 banks still owing \$17 billion in TARP capital.

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## The Bulls, The Bears & The Bewildering

Aside from the plethora of Standout Statistics already reviewed, the material question is what was Bullish, Bearish, and Bewildering from the past two weeks? With respect to the Bulls, distinguishing between a true Bull and a mechanical-bull (mathematical or accounting manipulated) is the key to understanding this week's news. The Bears appear to have taken a field trip to explore caves for possible hibernation based on auto sales and ISM manufacturing data. In aggregate, though, the 4-week moving average score remains Bewildering with so much market volatility and the uncertainty surrounding both Europe's and the U.S. debt crises. How much wind is sucked out of the global economic winds from E.U. austerity measures in 2012, and what the FED does next (call all TARP loans due so it can buy Euro bonds for example), are the dominant uncertainties holding the market back.

That theme has been with us most of 2H 2011 and does not appear to be abating any time soon.

**THE BULLS** The auto sales data, ISM manufacturing activity, and demand for commercial office and industrial real estate are the true bulls from the Standout



Statistics. Auto sales are being fueled primarily by the American need to replace an aging fleet that now averages in excess of 10 years. ISM manufacturing activity is the "little engine that could" in the U.S. economy. Agriculture, energy and commodities to emerging markets and Asia are thus far able to fill in the gap from Europe's declining trade with the U.S. Foreign and institutional capital's search for investments with a real yield (something above 0.25% to 2.0%) - and diversified from sovereign debt, volatile commodity prices and precious metals - is driving demand for cash flowing U.S. office and warehouse space in core markets, education centers and core gateway MSAs. Bank earnings (raiding the ALLL), declining unemployment (applying government math to reduce the counted labor force), artificially

inflated pending home sales that deflate every 6 months due to contract cancellations from frustrated home buyers unable to obtain mortgages, and a temporary shrinkage of the FED's balance sheet are the mechanical bulls from the Standout Statistics. Arguably, these measures could be characterized as Bewildering given the anomalies in which these statistics appear Bullish.

All-in-all, though, this week's edition was scored Bullish in honor of Thanksgiving and recognition that a bullish measure is a bullish measure. Let's enjoy a rare bullish week and give thanks that more Americans are buying new higher mileage cars (reducing our foreign dependence on oil); at least 307,000 people are buying new homes and able to navigate a most onerous mortgage process; the FED hasn't grown its balance sheet to \$3.0 trillion – yet; and our office and warehouse commercial real estate is in demand once again.

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*AT STAKE IS FAITH  
IN OUR "FIAT"  
CURRENCY AND  
ACTIVITIES LIKE  
BANK STRESS  
TESTS.*

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#### THE BEARS



Based on reliable intelligence from the nation's top conspiracy theorists, government economists and FED officials took the perennial Bears on an extravagant field trip of Missouri, New Mexico, Tennessee and Kentucky caves over the Thanksgiving holiday to entice them into hibernation through next November. All kidding aside, the amount and magnitude of government economic data revision in the past year is cause for concern. Weekly Jobless Claims that drop when not a single state reports a decline in claims - or the number of states reporting increases in claims outnumbers declines by multiples approaching 10 - is troubling. A decline in the unemployment rate by excluding unemployed persons in the official count of the work force doesn't pass the smell test either. Nor do retail sales (elevated by paid insurance claims from spring and summer storms in the South, Midwest and Northeast), existing home sales, and GDP. Government data and policy makers are losing credibility with the American public and global market place with the expanded use of magical math and data revisions. At stake is faith in our "fiat" currency and activities like bank stress tests. Unreliable government data is the primary bear this week. AMR and PMI bankruptcies, rating agency downgrades to the six largest U.S. banks despite earnings being up nearly 50% over Q3 2010, and more revelations of an expanding state and municipal debt crisis (New Jersey and Detroit) take a back seat to unreliable government data as the dominant Bear. We can't have a functioning economy, or

vital capital markets with fiat government data. As the FED promises even more transparency and better communication.

**THE BEWILDERING** This week's Bewildering reads like a list maintained by Santa Claus as to who has been naughty or nice. Everyone is on the list in one form or another.



The same is true for the Bullish and Bearish economic measures. One month they are Bullish (like a drop in weekly jobless claims below 400,000), and the next month they are Bearish based on revisions or deeper analysis, like bank earnings which have been buoyed by raiding the ALLL. What dominates the Bewildering this week? Perennial favorites lead the list and include:

- **European Debt Crisis**
- **U.S. Uncontrolled Deficit Spending**
- **A burgeoning state and municipal debt crisis** that has New Jersey and Detroit now at the top of list for downgrades or default.
- **Housing** – With 27% of all homeowners in a negative or near-negative equity position, and banks resuming foreclosures, home prices and construction activity can't heal until we see improvement in job growth.
- **Job Growth** – Declining unemployment using magical government math when net monthly job creation lags the threshold needed to even absorb new entrants to the labor market (150,000+) is about as Bewildering as an economic measure gets.
- **The Federal Reserve** – Stress tests based on incomplete and inaccurate data among the banks, which can't answer the most basic questions, and appointing a new head of bank supervision that lacks industry or bank supervision, impedes progress in resolving our own banking crisis. It will take more Robert Wilmsers and U.S. District Court Judge Jed S. Rakoffs in positions of leadership in Congress and the FED to fix our banking system. Elevating a career academic with no industry or bank supervision to lead bank supervision at the FED, given the depth of seasoned senior bank exam staff with industry experience in the Cleveland, Dallas, Kansas City, St Louis and New York Federal Reserve Districts, is what leads to legislation like HR 3461. Maybe our next President will consider someone with bank industry experience for the next Chairman of the FED in 2014.

## ECONOMIC CALENDAR

### DECEMBER 5 - DECEMBER 9

After the past six weeks of Q3 earnings releases (in which 69% of companies posted positive surprises), updated readings on the economy for Q3 2011 (that saw GDP revised down 50 basis points to 2.0%), and the largest U.S. municipal bankruptcy in Alabama, the week ahead will be a mild one in terms of breaking economic news.

In the final three weeks of 2011, the focus will remain on Europe and the banks. The U.S. bank focus will shift to reading the tea leaves of in-process stress testing whose final exam date is January 5th. How the FED interprets the bank stress test results will have huge implications on the capital markets and lending in 2012. In large part, these stress tests will determine the fate of whether a CMBS market reconstitutes in 1H2012. The results of these stress tests will be managed by a new sheriff in charge of bank supervision at the Federal Reserve who has an academic and statistical focus yet lacks industry experience.

The news pertaining to Black Friday, Small Business Saturday and Cyber Monday retail sales figures has calmed markets temporarily as it appears the American consumer has more Santa Claus in them than Scrooge. Get ready, though, for a dizzying January and February 2012 as the focus will shift to margins from the retailers and the reality of how austerity measures in Europe impact global and U.S. GDP. Keep GDP figures for places like Hong and Germany on your radar screen. The latest Q3 GDP figures for Germany and Hong Kong showed some leveling from the free-fall that was occurring in Q2.

The key events to monitor next week include:

#### Monday

December 5th will report Factory Orders and the ISM's non-manufacturing index to see how services are performing.

#### Tuesday

E.U. Leaders Meetings.

#### Wednesday

An updated reading on consumer credit.

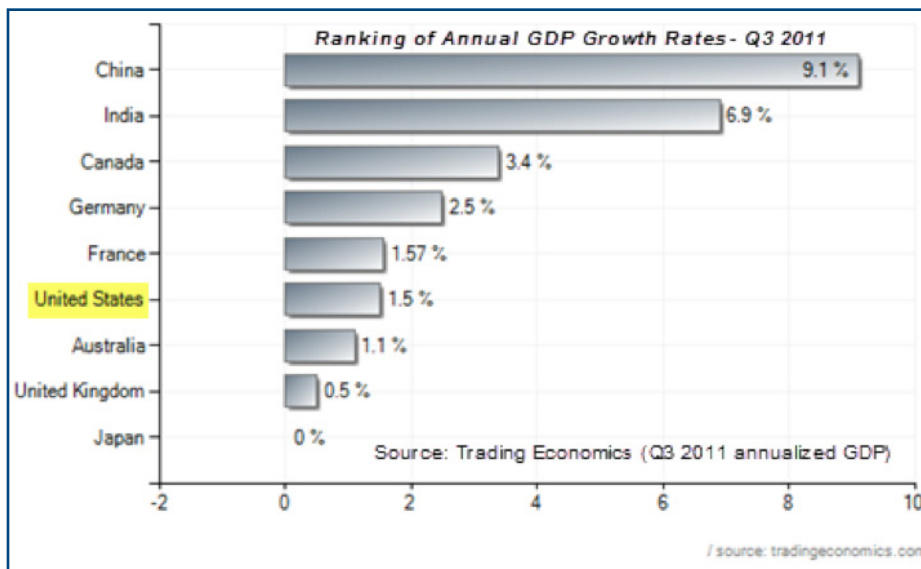
#### Thursday

Weekly jobless Claims and a new report on Wholesale Trade activity.

#### Friday

A fresh reading on consumer sentiment (Michigan Consumer Sentiment Index).

**IN THE FINAL THREE WEEKS OF 2011, THE FOCUS WILL REMAIN ON EUROPE AND THE BANKS.**



# KEY ECONOMIC FINANCE RATES

## GROSS DOMESTIC PRODUCT

### United States

Q3 2011 +2.0% (Revised 50bps)  
 Prior Qtr. +1.3% (Updated 9/29)  
 CY 2010 +2.9%

### Hong Kong

Q3 2011 +0.1%  
 Prior Qtr. -0.4%  
 Recent High +3.6% Q2 2009  
 Recent Low -3.6% Q1 2009  
 Historic Avg. +1.0% 1990-2011

### Germany

Q2 2011 +0.5%  
 Prior Qtr. +0.3%  
 Recent High +2.1% Q3 2010  
 Recent Low -3.7% Q1 2009  
 Historic Avg. +0.3% 1991-2011

## CHICAGO FED NATIONAL ACTIVITY INDEX (CFNAI)

Current Period -0.27% Oct 2011  
 Year Ago -0.36% Oct 2010  
 Prior Month -0.16% Sep 2011  
 May 2011 -0.25%  
 April 2011 -0.85%  
 March 2011 +0.41%  
 February 2011 -0.26%

## NATIONAL RESTAURANT PERFORMANCE INDEX

Current Period 100.1 Sep 2011  
 Prior Period 99.4 Aug (13 Mo Low)  
 Trend Volatile  
 Key Note < 100 = contraction

## PRODUCER \$ (PPI-FIN GOODS)

Oct. 2011 -0.3% (New On 12/15)  
 Sep. 2011 +0.8%  
 August 2011 +0.0%  
 July 2011 0.2%

## CONSUMER PRICE INDEX

Oct. 2011 -0.1% (New On 12/16)  
 Sep. 2011 +0.3%  
 August 2011 +0.4%  
 July 2011 +0.5%

## U.S. UNEMPLOYMENT

U-3 (Official) 8.6%  
 U-6 (Total) 16.1%

## JOBLESS CLAIMS

Initial (11/26) 402,000  
 Initial (Prior) 396,000  
 4-Wk Average 395,750

## TREASURY RATES

2-yr (12/2) +0.25%  
 10-yr (12/2) +2.05%

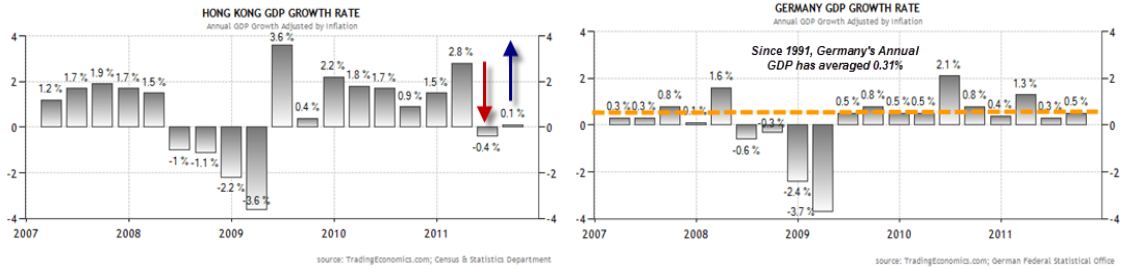


Chart 1. Monthly percent changes in the Producer Price Index for finished goods, seasonally adjusted: October 2010 – October 2011

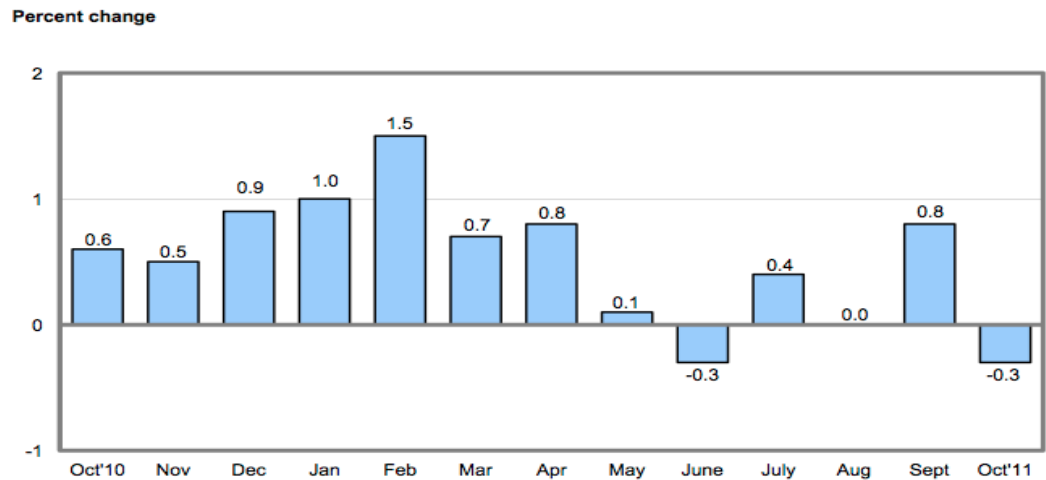
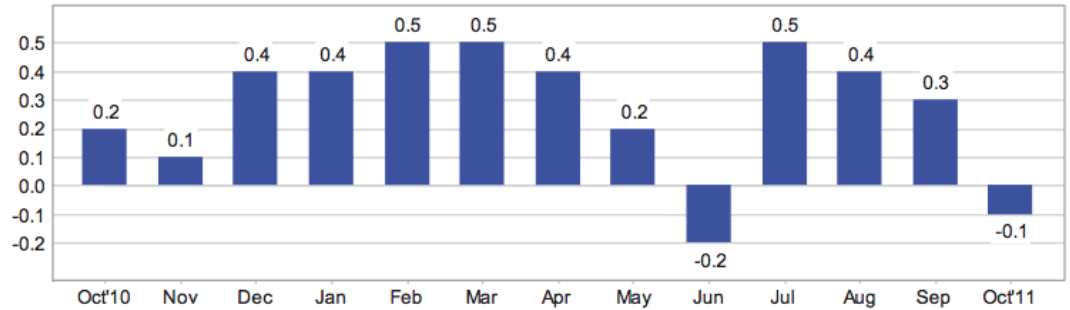


Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Oct. 2010 - Oct. 2011



## CMBS DELINQUENCY RATES

PROP. TYPES	OCT 10	SEP 10	AUG 10	3 MO.	6 MO.	1 YR.
Industrial	6.27	6.48	6.56	6.04	5.41	3.18
Lodging	14.92	19.33	18.92	18.41	17.16	8.67
Multifamily	14.63	14.43	14.53	14.00	13.06	7.66
Office	6.68	6.62	6.57	6.35	5.37	3.08
Retail	7.17	7.13	6.76	6.90	6.44	4.53
<b>Overall</b>	<b>8.58</b>	<b>9.05</b>	<b>8.92</b>	<b>8.71</b>	<b>8.00</b>	<b>4.80</b>



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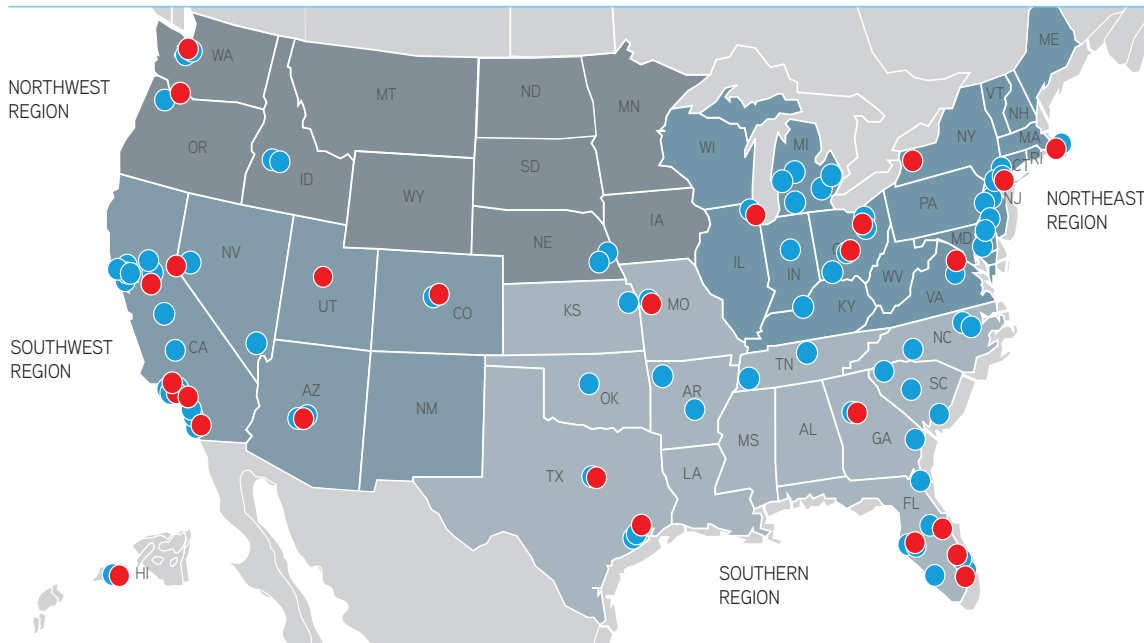
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