

COLLIERS INTERNATIONAL VALUATION & ADVISORY SERVICES

WEEKLY MARKET RECAP



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Macro Economic and Real Estate News

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

"It's not nice to fool Mother Nature"

Many of you may recall this advertising slogan from the 1980s when Chiffon margarine portrayed the taste of its new margarine spread as being so butter-like in taste that it could fool even Mother Nature.

Last week's earthquake in Virginia and Hurricane Irene got me to thinking that maybe Mother Nature is a tad upset over the foolishness in Washington, D.C. and Wall Street as she's sending a message to both. That message being:

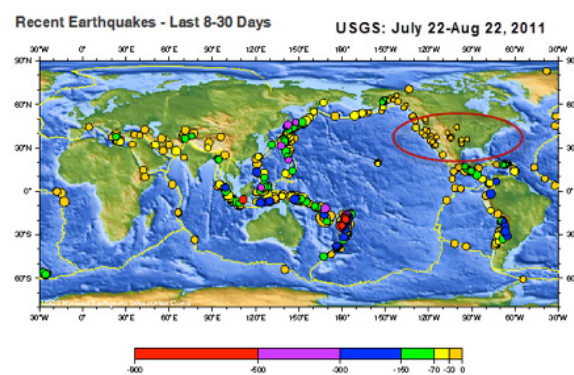
Don't fool with Mother Nature's 401(k) and retirement investments any longer. Get back to the business of fiscal responsibility.

This perspective may sound crazy, but it's a whole lot more palatable than Harold Camping's end of the world theory - or some of the economic perspectives coming out of Washington, D.C. of late. Last week, the theme was the following economic recipe:

Perspective - Analysis - Conviction:

- 1 part perspective
- 1 part analysis
- 1 part conviction

Making sense of some of the events from last week requires having perspective and conducting some analysis of the facts to realize that earthquakes occur every week throughout the U.S., and hurricanes can and will strike the East Coast north of Florida and the Carolinas. Checking in with the U.S. Geological Survey, the following graphic shows the location of earthquakes across the U.S. and around the world the week before the Virginia earthquake. It might surprise you to know that in the week preceding the Virginia earthquake, there were five



other U.S. earthquakes in California, Colorado, Nevada, and Oklahoma ranging in magnitude from 2.8 (Nevada) to 4.7 (Colorado). None of these earthquakes, however, garnered the media hype of the 5.8 Virginia quake. The important takeaway for those of us vested in real estate assets across the U.S., and particularly in the east, is: **the East Coast has become complacent regarding the risk of earthquakes.**

This complacency should be a wake-up call as there are major fault zones throughout the Eastern U.S. - such as the New Madrid fault that runs from Illinois south through Tennessee. Faults, such as the New Madrid, have historically been as active and destructive as the San Andreas in California. They're overdue for increased seismic activity after nearly 100 years of dormancy. The perspective to take away from last week's Virginia earthquake is that the Eastern U.S. may be at more risk to earthquakes than the Western U.S. for two reasons:

- The East Coast has become complacent and numb to the risks due to the infrequent nature of seismic activity over the past 75 years. As a result, its emergency preparedness to handle a major earthquake is lacking compared to the Western U.S.

MONEY YOU MAY HAVE SAVED LAST YEAR FROM PROPERTY TAX APPEALS COULD BE OFFSET IN 2012 BY HIGHER PROPERTY INSURANCE RATES.

- The East Coast has largely failed to factor seismic activity into its building codes, rendering most infrastructure and buildings vulnerable to even a minor earthquake. Take for example last week's headline of the week regarding the Harmon Hotel and its imminent demise before ever opening due to structural concerns during an earthquake. Sherman won't have to burn Atlanta again to exact near the damage that will result from a greater than 6.0 earthquake on the New Madrid fault. A major earthquake of a 6.0 to 7.0 magnitude range along the New Madrid fault would likely result in crippling collateral damage from Chicago to Atlanta.

Hurricane Irene was a second close call for the East Coast last week. The damage from Hurricane Irene is primarily the result of flooding, and not the wind and tidal surge damage typically incurred by the landfall of hurricanes in Florida.


It will still end up being one of the 10 most costly disasters in U.S. history with \$7.0 billion in total losses – of which maybe only half will be covered by insurance. Two related real estate and capital markets stories you will read more about in the weeks ahead are:

- Increases in property insurance rates. Florida went through this phenomenon following the 2005-2007 hurricane seasons.

The rest of the Eastern U.S. is likely to see similar changes in insurance policies (such as higher deductibles) and rates as a result of the snow storms, tornadoes, and now earthquakes in addition to hurricanes. Money you may have saved last year from property tax appeals could be offset in 2012 by higher property insurance rates.

- Catastrophe (Cat) Bonds-Cat Bonds are a structured financial vehicle to essentially lay off the risk of catastrophes by insurers to investors looking for a yield premium. Until further scrutiny is conducted into the yields on these catastrophe bonds, it could be thought that maybe this is the answer to our real estate crisis. Overall, it has been a bad year for catastrophe bonds. Excluding the effects of Hurricane Irene, cat bonds have returned only 1.02% so far this year, according to the Swiss Re Global Cat Bond Index. That contrasts with 5.43% at this point a year ago and 4.3% each for 2004 and 2005; the most active Atlantic hurricane seasons on record.

One should adhere to a strategy of paying down the mortgage rather than betting on the occurrence of catastrophes and investing in cat bonds. With the disaster news of the week behind us, let's turn to the economic and real estate news and dissect the *Bullish, Bearish and Bewildering* news in a week of earthquakes and hurricanes.

 THE SCORE BOARD				
WEEK ENDING	BULLS	BEARS	BEWILDERED	
August 26	4	5 ★	3	
August 19	3	6 ★	5	
August 12	5 ★	4	4	
August 5	3	4	5 ★	
4-Week Avg.	3.8	4.8 ★	4.3	

 **The Score Board**
"THE BULLS, BEARS AND BEWILDERED DEFERRED TO MOTHER NATURE"

This past week, it appears that Mother Nature had an affinity for the Bears. Who are we to disagree with Mother Nature?

The week got off to a shaky start with fresh economic data from the Chicago FED (Chicago FED National Activity Index) on Monday, and New Home Sales on Tuesday morning. The market really got rattled Tuesday afternoon with the Virginia earthquake.

Things didn't improve on Wednesday with Durable Goods data, Thursday with a rise in Weekly Jobless Claims, or Friday with GDP, Consumer Sentiment, and landfall of Hurricane Irene.

There was a spattering of *Bullish* news with some details on more Canadian pension money coming into the U.S. real estate markets. FHA hit a new record for multifamily real estate financings and there was an indication that C&I (commercial and industrial) lending picked up in Q2.

There was plenty of *Bewildering* news led by a Colorado bank selling its name to raise capital to stave off a potential regulatory closing.

RETHINKING THE RELIABILITY OF METRICS DURING UNCHARTED TIMES LIKE THESE IS HOW TO REESTABLISH MARKET PERSPECTIVE.

STATISTIC(S) & HEADLINE(S) FOR THE WEEK

The Statistic(s) of the Week

There are two statistics that go together this week.

- **The S&P 500** has now fallen to Reagan Recession Levels and has erased \$2.3 trillion from the market value of U.S. equities in the past 30 days – July 22nd through August 22nd.
- **The Chicago FED National Activity Index (CFNAI)** has been in negative territory now since April, and is dangerously close to the level (-0.7) in which the economy typically slips back into recession.

The S&P 500 Decline

Amid growing concern that the economy is on the edge of another recession, investors are paying less for equities today than they have during every recession since the Reagan presidency. **The Standard & Poor’s 500 Index has lost 13% in the past five weeks, sending its price-earnings ratio down to 12.9.**

According to Bloomberg, that P-E ratio is 3.5% less than the average multiple during the 10 contractions since 1949 - and is at a level not seen since 1982.

Who has performed the worst and who has fared the best? Energy, financial, and industrial companies have performed the worst out of the 10 groups in the S&P 500 since July 22nd, falling more than 16%, as investors fled the cyclical stocks in these sectors that are most tied to economic growth. Utilities and makers of household products posted the smallest losses.

The Chicago FED National Activity Index (CFNAI)

Over the past few weeks, we’ve challenged you to rethink the metrics relied upon as your leading indicators to the economy. Two weeks ago it was suggested that inclusion of the GDP from some of the world’s major exporting economies, such as Hong Kong or Germany, is necessary for a more complete market perspective.

Another metric that is excellent and has yet to garner attention is the Chicago Federal Reserve’s National Activity Index. What is it and why is it a top WMR pick as a leading economic indicator?

What is the CFNAI?

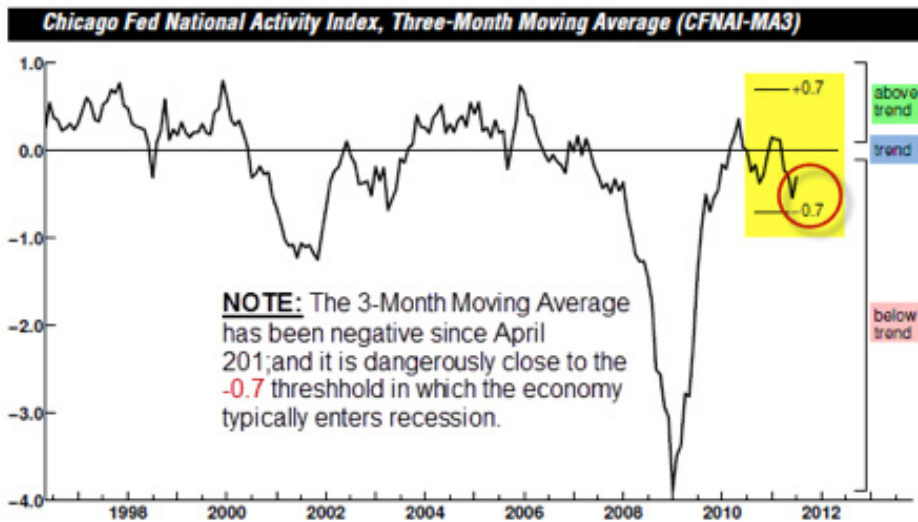
The index is a weighted average of 85 indicators of national economic activity. The indicators are drawn from four broad categories of data:

- 1) Production and Income
- 2) Employment, Unemployment, and Hours
- 3) Personal Consumption and Housing
- 4) Sales, Orders, and Inventories

These 85 indicators are one of the best broad measures of economic activity. The four categories capture everything from employment to manufacturing. A zero value for the index indicates that the national economy is expanding at its historical trend rate of growth. Negative values indicate below-average growth and positive values indicate above-average growth. **The graph to the left depicts what it looks like and the most recent reading.**

Consider inclusion of the CFNAI among your key economic indicators. In September, the WMR will introduce a new Economic Indicators section that will include many indicators referenced in recent weeks.

Rethinking the reliability of metrics during uncharted times like these is one way of re-establishing market perspective and conviction for where to invest.



CFNAI (CFNAI-MA3): For The Latest 6 Months And Year Ago							
CFNAI	JUL '11	JUN '11	MAY '11	APR '11	MAR '11	FEB '11	JUL '10
Current	-0.06	-0.38	-0.44	-0.81	+0.41	-0.26	+0.27
Previous	N/A	-0.46	-0.55	-0.78	+0.40	-0.23	+0.21
CFNAI-MA3							
Current	-0.29	-0.54	-0.28	-0.22	+0.12	+0.13	0.00
Previous	N/A	-0.60	-0.31	-0.20	+0.12	+0.14	-0.07

Current and Previous values reflect index values as of the August 22, 2011 release and July 25, 2011 respectively.

Source: CFNAI

**BANKING IS AN
IMPORTANT
SOURCE OF
CAPITAL FOR
REAL ESTATE,
AND IS NOT
BEING REPLACED
TO ADEQUATE
LEVELS BY LIFE
COMPANIES
OR THE CMBS
MARKET.**

The Quote(s) of the Week

This week's quote captures the essence of what happened in banking and what needs to change. Its applicability extends well beyond the community-banking context. The quote comes from Clayton Deutsch, President of Boston Private Financial Holdings, Inc. In an August 25th interview with American Banker, Deutsch addressed the difficulty banks are going to encounter in order to build a new business model that is not concentrated in commercial real estate.

The title of the American Banker article by Rachel Witkowski is *Small Failure Unearths Big Issue for Private Banking*. The quote is as follows: **"Our mistake was bad exposure and too much concentration on commercial real estate and development loans,"** says Clayton Deutsch, Boston Private's president and chief executive. Deutsch was hired last year to revive Boston Private Financial Holdings. **"The No. 1 goal since taking over has been to stop doing stupid things and remember who we are."**

What Clayton Deutsch is so adeptly pointing out is that:

- Bankers have to get back to the basics of banking.
- Being concentrated in any one line of business is an invitation for a "cease and desist" order. This time, it was too much of a commercial real estate diet, but bankers haven't learned the concentration lesson and are now rushing into C&I and private banking with the same lack of knowledge and expertise that got them into trouble with real estate.
- Quit repeating the same mistakes and focus on core business.

Whether you are a bank, hedge fund, REIT, developer, regulator or other real estate finance professional, Clayton Deutsch's advice is spot on. He deserves a WMR "keen sense of the obvious" award. "Stop doing stupid things and remember who we are" should be the campaign slogan for all candidates in the 2012 elections.

The Headline(s) of the Week

Surprise, the headline has nothing to do with natural disasters, European or U.S. debt disasters, the Federal Reserve, Dodd-Frank, or the latest absurd statement by one of our Washington elected or want-to-be-elected leaders. It does relate to banking and regulation and is intended to highlight just how absurd the situation has become for community banks.

Take My Name, Just Don't Take My Bank

The headline is a story by Robert Barba about a Colorado bank that sold its name in order to raise capital to stave off being seized by bank regulators. Faced with a prompt corrective action directive calling for the \$1.4 billion-asset Community Banks of Colorado bank to raise enough capital to become adequately capitalized or risk failure, the bank struck a deal to sell some of its best located branches in Colorado's most heavily populated areas — and the institution's Community Banks of Colorado moniker. In an interview about the unusual transaction, the bank's president stated: "The marketplace is challenging. Very few banks are getting recapitalized. This proposal took extra effort on all sides. **The opportunity to continue service is quite worth it.** I was not inclined to sell the name, but I kept an open mind. It is a lot easier to find a new name than it is to watch your whole bank disappear some Friday night."

The sale to NBH Holdings Corp., a Boston banking company that entered Colorado in July by buying the failed Bank of Choice in Greeley, includes 16 branches. The respective banking companies have not disclosed a price or the overall deposits or assets involved. The Community Banks of Colorado president has indicated that the proceeds, along with a reduction in assets, would return his bank to adequately capitalized status. He just doesn't know what his surviving bank will be named, or how confused the bank's customers will be over the sale of the name.

This story was selected for the headline of the week as it builds on this reoccurring theme of the dismantling of the U.S. banking system by the regulatory regime. Two weeks ago, we learned of Main Street Bank in Texas calling it quits over the onerous regulatory environment. This week a bank must sell its name just to stay capitalized. If the Community Banks of Colorado name was so valuable and serving its respective communities to such a degree that a new out-of-state banking entity valued its name, why couldn't the regulatory regime see any value in this financial institution? **The fate of our banking industry matters a lot to those of us in the real estate industry.** Banking is an important source of capital for real estate, and is not being replaced to adequate levels by life companies or the CMBS market. We have a serious capital crisis in the real estate industry that requires north of \$100 billion in refinance capital in 2012, and north of \$250 billion in years 2013-2017. Refinance risk needs to be on your radar screen over the next 3-5 years.

The Bulls, The Bears & The Bewildering

As previously noted in the Scoreboard, the bears prevailed again. Throughout the South and inter-mountain regions of the U.S., a rash of bear sightings is occurring due to the extreme heat and drought conditions. Mother Nature is unleashing her ire after reading her latest 401(k) statement. It's getting harder and harder to find *Bullish* news each week to represent that the Bulls are still in the game. Don't despair, though, our research will continue to unearth the opportunities despite the dysfunctional nature of Washington, D.C.



THE BULLS

It took scraping the bottom of the barrel this past week to find some *Bullish* news and we only came up with the following four items:

- **More foreign capital is coming into the U.S. to invest in commercial real estate.** Good news for those with stabilized cash-flowing properties in core MSAs that need to refinance.

The Canadian Pension Plan (CPP) Investment Board is putting its money in the U.S. commercial real estate market. The Winnipeg Free Press reported last week that the board is investing \$284 million in properties located in California, the District of Columbia, Massachusetts, and New York. Among the transactions are a 40% share in a 426-unit property in Cambridge, a 45% share in a 340,000 square-foot Class A office property in Washington, D.C., and a 32% interest in two New York office buildings. "We think it's now a very attractive time to invest in the sector," says Peter Ballon, CPP's Vice President and Head of Real Estate Investments for the Americas, who adds that the U.S. multifamily housing sector is an especially attractive vehicle. "The rental market has, in many ways, been, and will continue to be, a beneficiary of the crisis that's been happening in the single-family market."

Other Canadian entities, such as Great West Life and Toronto Dominion, have also seen the opportunities in U.S. real estate in 2011 - and they continue to be *Bullish* on core assets in core markets.

Whether it's energy, resources, banking or investment capital, Canada seems to get a lot right these days. Thank you, Canada for being *Bullish* in U.S. real estate markets.

- **C&I (commercial and industrial) lending has reportedly picked up enough that pricing competition is re-emerging.**

Across the country, community bankers are finding that competition for commercial and industrial loans is red hot, particularly when larger institutions are vying for the business. The key credit risk issue for bankers to monitor is for the point at which the competition will become heedless. Banks are flush with money to lend and are flooding the C&I market as many look for ways to grow after the burst of the real estate bubble that sustained them for decades. The C&I market, however, is not exactly booming as the economy remains in the doldrums. A key way for banks to add such loans is to poach them from the guy down the street and **much of the growth in C&I lending is really a cannibalization of existing C&I business.** There is a lot of money looking for loans, and the atmosphere for pricing on credit is intense. Erosion in underwriting and loan covenants is typically the next step in these type situations.

- **Q.** Is anyone paying attention to credit quality in C&I?
- **Q.** Are banks substituting a commercial real estate concentration and bubble for a C&I one?
- **Q.** What is the job of this new Financial Stability Oversight Council (FSOC) created by Dodd-Frank?
- FHA multifamily lending keeps on chugging to new record levels. The Federal Housing Administration (FHA) reported last week that demand for multifamily loan financing is at an all-time high at the agency. With less than two months remaining in the fiscal year, FHA has endorsed \$10.5 billion in multifamily rental housing loans since last October. This is only the second time in the agency's history that volume has surpassed the \$10 billion mark. In FY 2011, FHA has endorsed nearly 1,100 multifamily loans, which is more than seven times the number of loans it had endorsed in 2008.

If you own multifamily real estate, it's your time.

IT SURE SEEMS LIKE THE REGULATORY REGIME IS ASLEEP AGAIN ON ANOTHER DEVELOPING CREDIT BUBBLE.

Rents are still rising (up nearly 3.0% in the first half of 2011), vacancy rates are about as tight as they can get (4%-6% range for most markets), prices are rising, cap rates are falling and capital is available.

It just doesn't get much better than this if you are vested in multifamily.

- **Community banking in parts of Florida – particularly south Florida – is starting to rebuild** and emerge with a profitable business model now that so many banks have been closed.

Nothing like eliminating competition to fix what ails an over saturated industry.

The airlines got rid of seats to fill up the planes, and the banking industry is in the early stages of a multi-year consolidation mode.



Ditto from last week – Where to begin? Last week got off to a shaky start with fresh economic data from the Chicago FED (Chicago FED National Activity Index) on Monday, and New Home Sales on Tuesday morning. Then the market really got rattled Tuesday afternoon with the Virginia earthquake.

Things didn't improve on Thursday with a rise in Weekly Jobless Claims, or Friday with GDP, Consumer Sentiment and landfall of Hurricane Irene.

Since we have previously discussed the Chicago FED's National Activity Index in the Statistic of the Week section, and we all have been inundated with the natural disaster coverage, the updated New Home Sales, Durable Goods, Weekly Jobless Claims, GDP and Consumer Sentiment data will be addressed herein.

New Home Sales

New-Home Sales Drop, Lowest Level in 5 Months. Sales of new U.S. homes declined again in July to the lowest level in five months, indicating the industry is still struggling to stabilize two years into the economic recovery. New home purchases fell 0.7% to a 298,000 annual pace after a 300,000 rate in June. For some perspective, this level is less than one-third the 2004-2007 peak levels. It may also be helpful to keep existing home sales data in mind for added perspective on housing. Sales of previously owned houses, which account for the bulk of the U.S housing market, also fell last month to the slowest pace since November 2010. What the political and policy leaders fail to grasp is that:

Builders are less inclined to start new projects as they face competition from cheaper existing homes and the prospect of foreclosures putting more unsold properties on the market. A jobless rate above 9% and limited employment growth continue to indicate there is no upside momentum in housing for the foreseeable future (1-3 years).

Weekly Jobless Claims

More important than the fact that this metric moved again in the wrong direction are the emerging trends that don't portend anything encouraging on the jobs front for the balance of 2011.

NEW HOUSES SOLD & FOR SALE (BY THE THOUSANDS)					
PERIOD	SOLD DURING PERIOD				
	U.S.	NORTHEAST	MIDWEST	SOUTH	WEST
2010					
July	279	29	43	163	44
August	278	30	32	150	66
September	316	35	50	163	68
October	282	30	40	162	50
November	287	20	35	164	68
December	333	22	38	168	103
2011					
January	310	33	42	163	72
February	281	19	31	170	61
March	305	25	39	171	70
April	316	25	41	168	82
May	309	19	42	173	75
June	300	14	42	176	68
Average RSE (%)	8	26	22	11	12
PERCENT CHANGE					
June-July 2011	-0.7%	100%	2.4%	-7.4%	-5.9%
90% Confidence Interval	12.9	94.6	32.5	16.3	26.2
July 2010-July 2011	6.8%	-3.4%	0.0%	0.0%	45.5%
90% Confidence Interval	13.5	44.7	43.6	19.2	45.2

Source: U.S. Census Bureau

UNEMPLOYMENT INSURANCE DATA FOR REGULAR STATE PROGRAMS					
WEEK ENDING	ADVANCE AUG 20	AUG 13	CHANGE	AUG 6	PRIOR YEAR
Initial Claims (SA)	417,000	412,000	+5,000	399,000	469,000
Initial Claims (NSA)	341,436	345,972	-4,536	354,408	384,955
4 WK Moving Avg. (SA)	407,500	403,500	+4,000	406,000	477,250

The absence of states with increases in claims of at least 1,000 has reversed. Last week, weakness in the service sectors for key Northeastern states, such as New York and New Jersey, became evident again. Financial service layoffs, weakness in retail, etc. and the Challenger, Gray & Christmas job cuts reports all suggest we will see further deterioration in employment through the end of 2011.

The dysfunctional Congress and 2012 campaign superseding the importance of repairing the country, and the FED unable to do much more than keep interest rates low, will not allow us to see a scenario over the next 6 months that avoids unemployment rising back to or above 10%. GDP revisions continue to be adjusted downward, and the leading GDP indicators for our manufacturing and exports (Hong Kong and Europe) are also declining. Global demand is slowing and U.S. demand is in the doldrums. It doesn't matter if interest rates are zero, consumers and businesses are not spending. Now is the time to stress test your business models with GDP in the range of zero to 1.0 %.

GDP

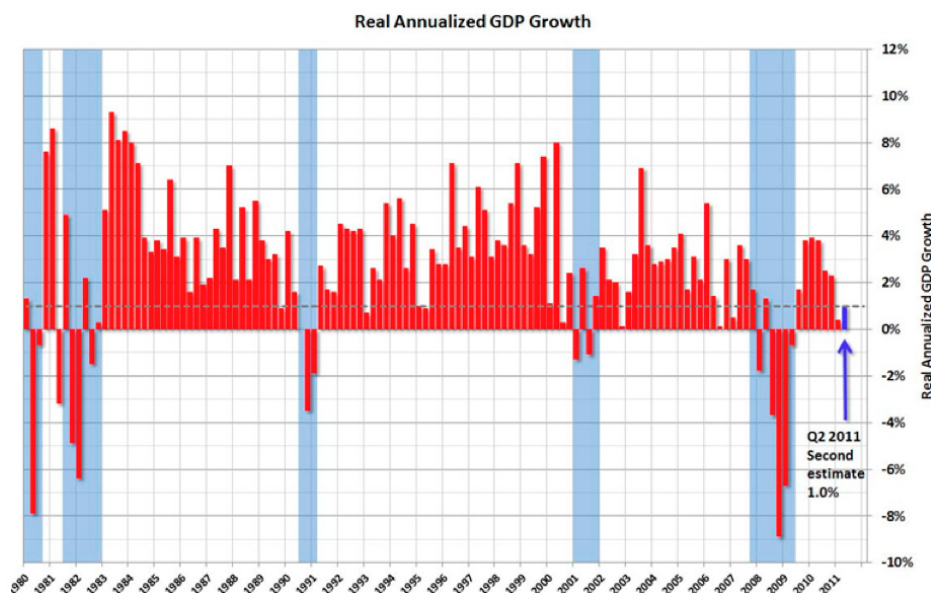
GDP is performing as feared and suggested in previous WMRs: **“No growth while government can't act.”** Revision after revision has GDP falling. Q1 GDP has been revised down from an advance reading of 1.9% to just 0.4 %. Q2 GDP was just revised down from an advance estimate of 1.3% in June to now 1.0%.

Without the U.S. producing jobs, and global demand slowing for our exports, GDP is headed south. Our agricultural and technology exports may keep GDP from going negative in 2011, but the risk of a negative reading on GDP in the first half of 2012 is greater than 50%. As discussed in a WMR earlier this month, GDP does not have to go negative in order for us to be in recession. Recall the definition of recession by the National Bureau of Economic Research:

“A significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.”

Recall that there is no official definition of a recession, and no official body to decree that one has begun or ended. Indeed, a clear picture of the state of the economy usually comes months or even years later. Recessions are commonly described as two or more quarters of a declining gross domestic product. That definition is not used by the National Bureau of Economic Research, whose findings on swings in the business cycle have come to be generally accepted as the definitive dates for recessions and expansions. Don't bet on more than 1.0% GDP for 2011 or the first half of 2012.

STATES WITH A DECREASE & INCREASE OF MORE THAN 1,000		
STATE	CHANGE	STATE SUPPLIED COMMENT
STATES WITH A DECREASE OF MORE THAN 1,000		
CA	-10,912	Fewer layoffs in the service industries.
TX	-1,690	No Comment
MN	-1,061	No Comment
STATES WITH AN INCREASE OF MORE THAN 1,000		
PR	+1,236	No Comment
NJ	+2,223	Layoffs in the service industries.
MA	+2,499	No Comment
NY	+5,047	Layoffs in the service industries.



Consumer Sentiment

We don't need to beat this metric to death. The consumer is hibernating in a cave with what's left of their savings. The Thomson Reuters/University of Michigan consumer sentiment index confirms what we already know. Although the index edged up from its mid-August level, it's still consistent with recession-era lows. The index has only been lower in three other surveys, which were taken in April and May 1980 and November 2008. The final August reading on the overall index of consumer sentiment was at 55.7, down from 63.7 the month before. It was slightly better than August's preliminary reading of 54.9, which had been the lowest level since May 1980.



THE BEWILDERED

The list of what's *Bewildering* is getting long. Aside from the uncertainty in Europe, absence of job growth in the U.S., lack of confidence in Congress to return and tackle our own fiscal mess, lack of transparency at the FED as to what they will do next, and the cloud of Dodd-Frank details to come in the fall relating to critical provisions (Section 165 and who is tagged as Systemically Important to the Financial System and subject to the oversight of the FED), how can the market adopt anything but a short strategy until there is some clarity in fiscal, monetary and economic policy?

The top *Bewildered* pick of last week was from Fitch:

- A statement by Fitch in an interview with Hotel News Now about the CMBS market that seemed to suggest all is well. According to Adam Fox, a senior director at Fitch, "Most maturing CMBS loans, particularly those from earlier vintages, benefit from stable performance and years of scheduled amortization, which make them more easily financeable in today's market; and Fitch expects the majority of maturing CMBS loans to pay off at maturity despite the short term volatility of the capital markets."

It's unknown what data Mr. Fox is looking at, but maybe he should take a look at TREPP data – the Rolls Royce of data on the CMBS market. The latest TREPP data shows another record in delinquencies and loss severities in the 40%-45% range with a shortfall of \$100 billion in capital to refinance maturing CMBS over the next 4 quarters. Is it any wonder the market is losing faith in rating agencies when they make these kinds of statements and pronouncements? S&P may make \$1.0 trillion math errors, but at least they get the right conclusion. Recall that Fitch also just reaffirmed the U.S. debt rating as triple-A. Anyone still buy that knowing it will take 100% of household income to amortize the \$98.141 trillion total U.S. debt over the next 30 years?

The runner up for top *Bewildered* item was the following headline from the Bureau of Economic Analysis (BEA): **Corporate profits increase as GDP remains sluggish.** Corporate profits increased \$57.3 billion in the second quarter, according to the BEA. They had grown \$19 billion in the first three months of the year.

CORPORATE PROFITS INCREASED \$57.3 BILLION IN THE SECOND QUARTER, ACCORDING TO THE BEA. THEY HAD GROWN \$19 BILLION IN THE FIRST THREE MONTHS OF THE YEAR.

But that growth didn't play out in the labor market, the nation added just 316,000 jobs in the second quarter. So how are companies racking-up such profits; and is it sustainable? They are racking-up profits by cutting costs, and that measure has gone about as far as it can go. Maybe that is what the market is finally figuring out as the respective market indices decline. Look at top-line revenues in Q3 earnings in 45 days. Revenue growth is flat to down and cost cutting is driving earnings. That is not the recipe for economic growth.

THE ECONOMIC CALENDAR FOR THE WEEK AHEAD: AUGUST 29–SEPTEMBER 2

In light of the Labor Day weekend, we'll not be producing a WMR next week. The week of August 29th to Sept 2nd will center on the ISM manufacturing and BLS Jobs reports on Thursday Sept 1 and Friday Sept 2nd, respectively. The ISM will come dangerously close to the threshold 50 reading and jobs will just barely remain positive. It's September and October's ISM and jobs numbers that are to be feared. Enjoy your Labor Day weekend and recall that this one is for all of us working 70 hours a week and those wishing they could be back working 70 hours a week. Keep in mind the millions disconnected from our labor force before contributing even a single dollar to candidates running for national office until they get the promised fiscal work completed by November. Some key events to focus on after Labor Day are:

- Sept 6th: Congress returns from recess. What will it do and will the earful heard from constituents at home translate into any better behavior and action?
- Sept 20-21: The next FOMC meeting. Don't over interpret the fact that it's a 2-day meeting; it's been scheduled as a 2-day meeting because there is no FOMC meeting in October. The FED has a lot to "get right" in its September meeting or it won't get another bite at the apple until November 1st. The November meeting is also a scheduled 2-day meeting to catch up on what was missed in October.
- November 30th: End of hurricane season. Irene was a wakeup call. The real question we should be asking is how financially prepared is the U.S. to handle another major disaster. With unemployment already over 9.0% and a total debt equal to 100% of household income, we should be a bit anxious about hurricane season.

KEY ECONOMIC FINANCE RATES

US UNEMPLOYMENT (AUG):

U-3 (official rate)	9.1%
U-6 (total rate)	16.3%

Note: Last Updated Aug 5

JOBLESS CLAIMS: (AUG)

Initial (Aug 20th)	417,000
Initial (Prior Wk)	412,000
4-Wk Average	407,500

HOME FORECLOSURES:

CY 2011	1,100,000
CY 2010	1,005,000
CY 2009	918,000
Dec 2010	69,847

GROSS DOMESTIC PRODUCT:

Q2 2011(1st Rev.)	+1.0%
Q1 2011 (Revised)	+0.4%
Q4 2010	+2.8%
Q3 2010	+2.6%
CY 2010	+2.9%

TREASURY RATES (JULY 29):

2-Year Tr (Up 1 BPS)	0.20%
10-Year Tr (Down 14 BPS)	2.22%

LIBOR

6-Month	0.48%
3-Month	0.31%
1-year	0.78%
PRIME % (US)	3.25%

(Fed FOMC Mtg Sep. 20)

MORTGAGE RATES (JULY 29):

30-yr Fixed	4.61% (-6 bps)
15-yr Fixed	3.84% (-5 bps)

CONSUMER PRICE INDEX:

July	+0.5%
June 2011	-0.2%
May 2011	+0.2%
April 2011	+0.4%

CMBS DELINQUENCY:

(Source: TREPP)

9.88% - July 2011	up 51 bps
9.37% - June 2011	down 23 bps
9.60% - May 2011	down 5 bps
9.65% - Apr 2011	up 23 bps
9.42% - Mar 2011	up 3 bps
9.39% - Feb 2011	up 5 bps
9.34% - Jan 2011	up 32 bps

COMMODITIES:

Gold (\$/oz Aug 19)	\$1,823
Gold (prior low: 1/2006)	\$ 540
Oil (WTI) July 15' 11	\$82.12
Oil (High) Jun 13' 08	\$135.00
Oil (Low) Jan 09/09	\$40.83

DISCUSSION ITEM

This week's item is a simple yet challenging one. Over the Labor Day weekend, we'll be rebuilding the "Key Economic and Finance Rates" to better address the volatility in this kind of market and offer better leading indicator insight. Added measures will include:

- GDP from other countries vital to our manufacturing industry and exports. (e.g.Hong Kong and Germany)
- The National Restaurant Performance Index has a near perfect correlation to calling U.S. recessions and recoveries.
- The Chicago FED National Activity Index is another measure introduced in this week's Statistic of the Week.
- AMP/Prologis Industrial Business Index is another valuable metric with respect to industrial real estate.
- Axiometrics' rent concession index for REIT markets is another valuable leading indicator to note with respect to multifamily real estate.

Your input is important. We ask that you reflect on measures that you rely upon and make suggestions that we can incorporate for your benefit. How important, for example, would it be to include some agricultural data given the run up in food and commodity prices? Cotton prices will likely rise further as a result of Texas's record drought as it is the state producing the most cotton in the U.S. Is there more you would like to know about CMBS or bank performance data? Give it some thought and email us your key measures or requests and we'll see what can be incorporated into this enhancement over the next week.

512 offices in 61 countries on 6 continents

United States: 125
Canada: 38
Latin America: 18
Asia Pacific: 214
EMEA: 117

- \$1.5 billion in annual revenue
- 979 million square feet under management
- Over 12,500 professionals

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