WEEKLY MARKET RECAP

June 13 – June 17, 2011

by KC Conway, MAI, CRE
KC.Conway@Colliers.com

MACRO ECONOMIC & R.E. NEWS OF THE WEEK

Before I cover the *"Bulls, Bears and Bewildered"* economic and real estate news of the prior week, I want to acknowledge and reflect on a few milestones and historical events. The most important of these is Father's Day. Contrary to *"urban legend,"* Father's Day is not the creation of greeting card companies or the retail industry to generate sales. Rather, its genesis is traced to Grace Golden Clayton in 1908. On July 5th 1908, Grace organized an event to honor 362 immigrant mine workers killed in the 1907 infamous West Virginia Monongah Mining disaster. She simply wanted to emphasize the significance of the father's role within the family structure in the aftermath of such a loss to so many families. She is quoted to have said:

> It was partly the explosion that got me to thinking how important and loved most fathers are. All those lonely children and those heart-broken wives and mothers, made orphans and widows in a matter of a few minutes.

The mine explosion was one of the deadliest industrial accidents in American history, leaving 260 widows and more than 1,000 children without fathers. Two years later, Sonora Smart Dodd (from Spokane, Washington) advanced Grace Golden Clayton's idea by lobbying for a national event celebrating fathers. Inspired by a church sermon about the newly recognized Mother's Day, Dodd lobbied local churches in the spring of 1910 to celebrate a Father's Day in June of each year. Eventually, a 1966 presidential proclamation declared the third Sunday of June as Father's Day - which was followed in 1972 by a congressional resolution establishing the permanent national observance of the holiday in the United States. As a nation struggling with what has been labeled a "man-recession" by noted Moody'sEconomy.com economist Mark Zandi, let's not forget the real reason we should be focused on job creation – it's the destructive impact 9.0+% unemployment has on families when fathers are unable to find work.

An admired regulatory colleague of mine, Jack Phelps, was kind enough to send me some great Father's Day quotes. My favorite, which is publishable and politically correct, is:

> **When I was a boy of fourteen, my father was so ignorant I could hardly stand to have the old man around. But when I got to be twenty-one, I was astonished at how much he had learned in seven years. -- Mark Twain, Old Times on the Mississippi.**

This quote takes me back to a recent conversation with our CEO. At a client dinner he asked: "If you could have a conversation with anyone, who would it be and why?"

There were many interesting responses that ranged from Marilyn Monroe and Madonna to George Washington and Richard Nixon, but on my turn I responded:

> My late father, at this later stage in my life, because I think I would have so much more to ask now that I am a father and have some life experiences under my belt. I would value his thoughts on real estate between 1977 and 1981 when FED Chairman Volcker took the prime interest rate to 21%. As I fear a repeat of that era, I would value his perspective today.

For those of you who have not met our CEO, Ken Harrison, he has a way of learning a lot about you in casual conversation with questions like these.

A few other noteworthy events and dates in history I will share in advance of another week of *"The Bulls, Bears and Bewildering"* news include:

- The Weekly Market Recap comes of age with this edition. The week of June 13-17 represents the 21st edition. With continued interest and the great support of Colliers International, I look forward to sharing with you the 100th edition in the spring of 2013 when my oldest daughter (Katie) graduates from high school, and my youngest (Luke) prepares to enter pre-school. I have a bit of work ahead of me the next 79 weeks.
- On June 17 1885, the Statue of Liberty arrived in NY City. At this time when we find ourselves: i) engaged in three wars; ii) mired in an unprecedented economic slump; iii) divided over immigration policy; and iv) combating terrorism. Maybe it's an appropriate time to reflect upon ***"The New Colossus"*** (by Emma Lazarus) inscribed on the pedestal of the Statue of Liberty:

> **Give me your tired, your poor, your huddled masses yearning to breathe free, the wretched refuse of your teeming shore. Send these, the homeless, tempest-tossed to me. I lift my lamp beside the golden door.**

We are a nation of immigrants facing a whole new set of challenges in a global economy and religiously divided world. How do we reconcile this history with our future - and balance our free and open society with the need to protect and defend ourselves from the threats to our way of life?

- On July 16th 1884, the first roller coaster in America opened on Coney Island, in Brooklyn, New York. Known as a *"switchback railway"* (the term roller coaster had not yet been coined), it was the brainchild of LaMarcus Thompson. A couple of noteworthy facts are:

  - It traveled approximately six miles per hour.
  - A ride cost only a nickel.

  Its success spawned a new industry across America – the amusement park industry. As many fathers venture out to an amusement park this Father's Day weekend with their kids, let's hope the roller coaster and amusement park industry don't suffer the same demise in this persistent recession that both did following the Great Depression.

Let's move on to the business at hand and the market-moving events for the week of June 13-17. While the market found a way not to extend its seven-week decline, it still appears intent on remaining focused upon the *"Bearish"* Alaskan landscape. However, I continue to believe we are really just mired in the uncertainty surrounding the resolution of so many *"business-impacting"* items (government deficits and raising the debt ceiling, details of so many new regulations – especially Dodd-Frank, the contagion of global events in Europe and the Middle-East, etc.) that I scored the week *"Bewildering"* for the second consecutive week.

THE SCORE BOARD (The "Bewildered" prevail):

ECONOMIC SCOREBOARD

WEEK ENDING	BULLS	BEARS	BEWILDERED
June 17	5	4	6 ★
June 10	5	5	6 ★
June 3	6	7 ★	3
May 27	2	5 ★	2
4-Week Avg.	4.5	5.3	4.3 ★

Note: A Tie "Bulls/Bears" Score results in a "Bewildered"

The week of June 13-17 scored ***"****Bewildering"* for the second week in a row and third of the past five weeks. As I mentioned in the opening, the predominance of the *"Bewildering"* score is a reflection of the uncertainty surrounding the resolution of so many *"business-impacting" items.* Add to the mix the following, and it is no wonder the market is locked in indecision reluctant to expand or hire:

- Representative Ron Paul fueled the legitimacy of an internet conspiracy theory that the gold in Ft. Knox is not pure. He has requested representatives from the U.S. Treasury Department and the U.S. Mint testify at a subcommittee hearing on June 23 about the authenticity of the nation's gold. With so much work to do on the federal budget deficit, and the U.S. debt-ceiling deadline approaching in just 6 weeks, is this the "highest & best use" of Congress and Treasury time?

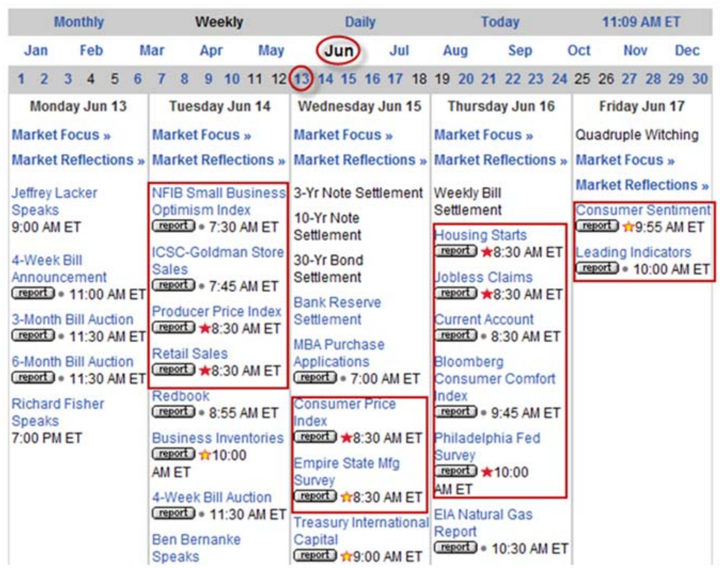
- The volatility of weekly jobless claims.

- Surveys by NAHB (National Association of Home Builders) and NBC/WSJ indicate: i) homebuilders haven't been as discouraged about housing since the depth of the Financial Crisis two years ago; and ii) nearly half of all Americans feel the economy is headed back into recession.

- Small businesses struggle with "poor sales" more than any other issue – even more so than healthcare costs, increasing government regulation, and credit.

To start putting all from last week in perspective, maybe the best place to begin is with a review of the economic calendar:

THE ECONOMIC CALENDAR: June 13 – June 17



Unlike the preceding week of June 6-10, the economic calendar for this past week was chock-full of market-moving data releases and reports. The *"biggies"* were:

- The NFIB/small business index on Tuesday.
- Update readings on inflation from both the producer and consumer levels with new releases of the PPI and CPI. Review this data in conjunction with your DCF (Discounted Cash Flow) models. Expenses continue to grow and rents remain flat to declining. The market anticipates rent spikes, but I don't yet see them outside multifamily and select office MSAs.
- More readings on housing and jobs with May's housing data, and then the volatile weekly jobless claims.
- A new reading on Leading Economic Indicators (LEI).

In addition to the aforementioned, we learned:

- The most expensive home in America can sell.
- Americans, homebuilders, and small business owners are as pessimistic as any point since 2008, but…
- Factory capacity utilization is high and manufacturing output rose 0.4% in May.
- Oil prices can come back below $100 per barrel.

- The DOW didn't extend its losing streak to 7 weeks; and
- Turkey's central bank has the courage to do what the U.S. central bank wouldn't do pre 2007, when it saw a concentration of commercial real estate in U.S. banks intervene vs. succumb to politics. Turkey is experiencing unprecedented growth in consumer lending, and taking the courageous step of requiring its banks to hold more capital for having a concentration of higher-risk and short-term consumer loans. Maybe we need a Turkish central banker to visit the new FSOC – Financial Stability Oversight Council.

Can you see why the *"Bewildered"* prevailed for a second consecutive week? It doesn't matter what the data shows in the weeks ahead. Until the cloud of uncertainty is lifted from budget deficits, the detail of rules for implementing Dodd-Frank, bank capital requirements, and what the FED does after QE2 ends at the end of June, the market is going to remain volatile and reluctant to engage in plans for expansion or hiring. The market needs clarity to move forward! The noteworthy *"Bulls, Bears and Bewildered"* news and headlines are summarized as follows:

STATISTIC, QUOTE, & HEADLINE of the week:

The Statistic(s) of the Week:

I've received a fair amount of feedback from many of you in favor of a recipe-approach to the *"Statistic of the Week."* Therefore, I will continue reporting it as such.

Last week's recipe was:

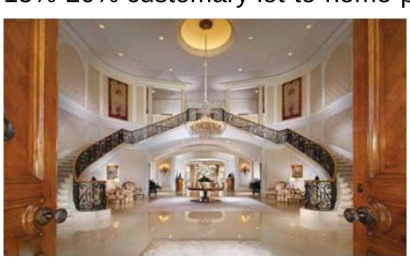
- ✓ 3-parts *"Bear,"*
- ✓ 1-part *"Unlucky"* and
- ✓ 1-part *"Pig."*

This week's recipe is:

- ✓ 1-part U.S. Housing
- ✓ 1-part Chinese Housing; and
- ✓ 1-part *"Misery."*

The 1-part U.S. Housing:

This past week we learned while entry and move-up homes are not selling in the United States, luxury housing still sells. The highest-priced home in the United States – a 57,000 square foot mansion in Los Angeles built by the late TV producer Aaron Spelling – sold for a $150 million to a 22-year old heiress to the Ecclestone Formula One racing family. I wonder what comparables were used in the appraisal to support $2,632 per square foot? Maybe they used Bill Gross's $26.5 million Newport Beach, CA lot listing discussed in last week's recap for the land valuation? It would make sense at 18% of the finished home price – within the 15%-20% customary lot-to-home-price ratio.



The 1-part Chinese Housing:

The price of new homes in China rose last month in 67 of the 70 cities monitored by China's National Bureau of Statistics. Prices in northeastern China's Dandong rose 9.7%, the most among the 70 cities monitored. In May, new home prices increased by more than 6% from a year earlier in 19 cities in comparison with 21 cities in April. Like Turkey, China's central bank may have learned from the inaction of the U.S. Central Bank prior to our housing crisis by intervening before a bust. On June 14th, China's Central Bank ordered its banks to hold more capital as reserves for the sixth time in 2011 as it fights to contain inflation and curb home prices.

The 1-part *"Misery:"*

Conditions have now deteriorated so much that we have seen the return of the *"Misery index"* from the days of soaring inflation in the late 1970s. The index, first compiled in the 1970s by economist Arthur Okun, is registering an alarming 12.7. The index is the compilation of the official U-3 unemployment rate (9.1%) and annualized *"Headline Inflation"* (3.6% - based on last week's new reading of CPI). The index reading of 12.7 is a number not seen since 1983. The "*Misery Index"* has been above 10 since November 2009, and it had been under double-digits from June 1993 through May 2008, or 15 years.

The Quote of the Week:

Two quotes captured my attention this week, and they come from opposite ends of the spectrum. The first comes from the *"Bewildered"* end of the spectrum, and is from the Treasury Secretary in response to Representative Ron Paul's inquiry as to when anyone from Congress last inspected the gold reserve in Ft. Knox. Treasury responded:

> Fort Knox is a closed facility and we are not certain anyone from Congress has toured the facility since it became a closed facility in 1974.

The other quote comes from the *"Bears need to just change their attitude"* end of the spectrum. In response to a question about last week's NBC/WSJ poll that showed nearly half of Americans believe the country is headed back into recession, Peter Hart, the Democratic pollster who led the NBC/WSJ survey said:

> The public is just too incredibly pessimistic about the future.

There you have it. We all are just too negative. Deficit spending, inflation, lack of an energy policy, declining home prices, economic paralyzing regulation, etc., can be corrected by a change in attitude. Call the FED and alert them to include an *"attitude adjustment"* note in next week's FOMC meeting minutes.

My point in selecting these two quotes is that both feed this attitude of uncertainty and a lack of confidence in our nation's leaders. We have real challenges that need honesty as well as real policy and legislative changes – not therapy or an attitude adjustment!

Remember, it was our parents that constituted the "greatest generation" by way of action and leadership, not denial, political polls on what to say, or Tweets.

The Headline(s) of the week:

Like the quote of the week, two related items made for the headline of the week. The first relates to the serious nature of our national debt problem as the situation in Greece festers and our debt ceiling goes unresolved. The second relates to a story in which Boeing faced outrage over trying to save some U.S. jobs by shifting manufacturing out of a union labor state (Washington) to a right-to-work state (South Carolina). These two headlines are related to the United States' struggle with employment growth in an increasingly competitive global arena**.** If we can't recognize industry's ability to shift manufacturing within the United States for efficiency and cost reasons, it will leave the United States entirely and exacerbate our mounting fiscal crisis.

- **IMF Cuts U.S. Growth Forecast, Warns of Crisis.** The International Monetary Fund cut its forecast for U.S. economic growth Friday and warned the United States and debt-ridden European countries they are "playing with fire" unless they take immediate steps to reduce their budget deficits. The global lender forecast that U.S. gross domestic product would grow an anemic 2.5% this year, and below 3.0% in 2012. The IMF's Financial Counsellor and Director of the Monetary and Capital Markets Department -Jose Vinals – stated: i) "We have now entered very clearly into a new phase of the (global) crisis, which is, I would say, the political phase of the crisis;" ii) In the United States, the political problems include a fight over raising the debt ceiling and taxes; and iii) "If you make a list of the countries in the world that have the biggest homework in restoring their public finances to a reasonable situation in terms of debt levels, you find four countries: Greece, Ireland, Japan and the United States." It's amazing how the rest of the world grasps the potential for a sovereign debt crisis, but we do not.
- **House Panel to Study NLRB's Role in Boeing Dispute.**
  This past week a battle erupted between The House Oversight Committee and the National Labor Relations Board (NLRB) over Boeing's decision to move some manufacturing jobs from Washington state (a union rights state) to South Carolina (a right-to-work state). At issue is whether Boeing has the right to move manufacturing activity and jobs within the United States, or whether the NLRB overstepped its power by filing a complaint against Boeing as a means of intimidation.

  Why is this an important item for us in real estate? You may recall I've been highlighting the trend toward "intellectual property manufacturing" returning to the United States from Asia due to the absence of laws protecting intellectual property rights. Much of this manufacturing is relocating back to the United States in proximity to "education centers" in predominantly right-to-work states in the south and interior west (Florida, Georgia, North Carolina, Texas and Colorado).

  If the NLRB oversteps its boundaries here, these jobs won't return to the United States. They will migrate to other industrialized nations that both respect intellectual property rights and offer a more competitive manufacturing environment – such as Canada, Ireland, or Germany. At stake is the recovery of our property markets with the return of these jobs. Boeing's situation is being closely monitored by the likes of technology, biomedical, pharmaceutical, and telecom industries. Whether you are pro or anti organized labor, the situation with Boeing may be a watershed event in the United States economic recovery or its slide back into recession.

The Bulls, The Bears & The Bewildering

Although this week's economic diet was high in "Bearish-protein," there was plenty of "Bullish-appetizers" on the menu. The problem, though, is a market too uncertain or "Bewildered" to eat.

The *"Bullish"* news of the week came from:
- **Housing** – Unlike Americans, foreigners are finding U.S. homes an attractive investment and are buying them at an increasing pace.
- **Manufacturing –** output rose 0.4% in May after April's 0.5% decline, and industrial production is up nearly 12% from the recession lows.
- **The rise in the CPI moderated in May.**
- **Jobless Claims declined.**
- **Mortgage Rates continue to decline.**

The *"Bearish"* news dominated the headlines and included:
- **Another decline in the NFIB/small business index.**
- **Declining American and homebuilder confidence** as both new NBC/WSJ and NAHB surveys indicate half of all Americans and homebuilders foresee the U.S. falling back into recession in 2H2011.
- **Employment as payrolls decline in 27 states; and**
- **Total Sales for retail and food establishments turn negative for the first time since June 2010.**

The *"Bewildering"* news of the week ranged from reconciling the results of the NAHB homebuilder survey and declining home prices with increasing housing starts, to explaining the decline in weekly jobless claims with payrolls contracting in 27 states. Pessimism over manufacturing activity while output increased in May was also *"Bewildering."* A lot of uncertainty and volatility in the economic data appears to have a grip on the economy. Eliminating that uncertainty is key to the "Bears" returning to their hibernation and the *"Bulls"* deciding to expand and hire again.

The Bulls:

Housing:

On the surface, this week seemed to suggest there was some new life being breathed into new home construction. On Thursday, the Commerce Department reported housing starts rose 3.5% to a seasonally adjusted annual rate of 560,000 units, retracing almost half of April's decline. April's starts were also revised up to a 541,000 unit pace, which was previously reported as a 523,000 unit rate. Compared to May 2010, residential construction was down 3.4%. The real question we all should have been asking is:

> Why would builders be increasing new home construction with: i) declining home prices; ii) rising foreclosures; and iii) NAHB reporting that builders are more pessimistic than any point since 2007?

The answer lies in the data:

May 2011 Housing Starts

Period	United States			
		In structures with --		
	Total	1 unit	2 to 4 units	5 units or more
2010: May	582	435	20	127
June	585	423	21	141
July	575	409	22	144
August	575	405	21	149
September	562	403	25	134
October	555	407	24	124
November	564	420	20	124
December	630	445	25	160
2011: January	568	419	20	129
February	534	382	15	137
March	574	392	16	166
April (r)	563	395	21	147
May (p)	**612**	**405**	**17**	**190**
Average RSE (%)[3]	1	[illegible]	8	[illegible]
Percent Change:				
May 2011 from April 2011	*8.7%*	*2.5%*	*-19.0%*	*29.3%*
90% Confidence Interval[3]	± 1.5	± 1.1	± 5.4	± 6.4
May 2011 from May 2010	*5.2%*	*-6.9%*	*-15.0%*	*49.6%*
90% Confidence Interval[3]	± 2.4	± 1.6	± 6.1	± 7.6

1. From a high level view, most of the increase was in multifamily starts in response to increased demand for apartments. We have seen this situation (most of the housing starts are multifamily) all this spring.

Northeast		Midwest		South		West	
Total	1 unit	Total	1 unit	Total	1 unit	Total	1 unit
Seasonally adjusted annual rate							
66	47	103	73	300	230	113	85
79	47	96	74	293	218	117	84
63	43	102	71	297	213	113	82
70	43	98	71	280	210	127	81
68	44	96	70	287	208	111	81
65	44	111	74	269	207	110	82
64	48	94	78	283	215	123	79
114	70	97	66	257	211	162	98
77	49	94	65	286	216	111	89
63	39	86	59	288	209	97	75
60	37	94	64	296	215	124	76
59	38	94	64	284	210	126	83
80	**36**	**93**	**67**	**294**	**216**	**145**	**86**
5	4	2	2	1	1	3	2
35.6%	*-5.3%*	*-1.1%*	*4.7%*	*3.5%*	*2.9%*	*15.1%*	*3.6%*
± 5.6	± 8.1	± 7.0	± 8.0	± 1.8	± 2.1	± 2.1	± 2.7
21.2%	*-23.4%*	*-9.7%*	*-8.2%*	*-2.0%*	*-6.1%*	*28.3%*	*1.2%*
± 7.7	± 11.1	± 3.2	± 3.6	± 4.1	± 4.7	± 2.6	± 3.3

2. Single-family starts actually declined in the Northeast, and were up only modestly 3,000 to 10,000 units in the other three regions. Thursday's reported increase in housing starts should not be interpreted as a material increase in new home construction activity.

Weekly Jobless Claims:

For the reporting period June 4th, claims increased by 1,000. Last week, jobless claims fell by 16,000. We're in a period of volatility that is influenced by state budget cuts and manufacturing layoffs from auto supply disruptions emanating from the Japan earthquake. This volatility will not settle down until Q3 2011. In the meantime, the important metric to monitor remains the 4-week moving average. It remained unchanged for the reporting period June 11th , and it remains elevated >400,000 at 424,750 claims.

UNEMPLOYMENT INSURANCE DATA FOR REGULAR STATE PROGRAMS

WEEK ENDING	Advance June 11	June 4	Change	May 28	Prior Year[1]
Initial Claims (SA)	414,000	430,000	-16,000	426,000	474,000
Initial Claims (NSA)	394,910	366,816	+28,094	381,497	448,305
4-Wk Moving Average (SA)	424,750	424,750	0	426,750	467,250

It will also remain important to look at the detail state data. Just like the week of June 4th, detail state data revealed claims actually declined if one backed out the layoffs from the Missouri tornadoes. The week of June 11th detail state data reveals that manufacturing slowing in NY, FL, and GA are worth monitoring as they are not auto related. Tennessee's decrease was due to the opening of the new Volkswagen auto assembly plant in Chattanooga.

STATES WITH A DECREASE OF MORE THAN 1,000		
State	Change	State Supplied Comment
NY	-4,060	Fewer layoffs in the construction, manufacturing, and retail industries.
CA	-2,510	Shorter work week, as well as fewer layoffs in the service industry.
MA	-1,846	Fewer layoffs in the construction and service industries.
GA	-1,256	Shorter work week due to holiday.
FL	-1,240	Fewer layoffs in the agriculture, construction, manufacturing, retail, and service industries.
PA	-1,165	Fewer layoffs in the construction, service and retail industries.
MS	-1,125	No comment.
NC	-1,116	Fewer layoffs in the manufacturing industy.
CT	-1,028	No comment.

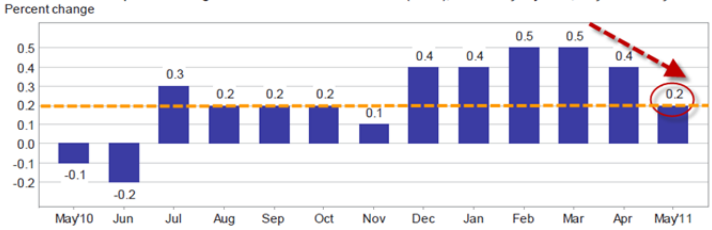
STATES WITH AN INCREASE OF MORE THAN 1,000		
State	Change	State Supplied Comment
TN	+1,055	Layoffs in the service industries.
WI	+1,528	No comment.

Moderation in the rate of increase in the CPI:

Since November 2010, the monthly CPI has been increasing at an elevated rate of 0.4% to 0.5%. For the first time in nearly six months, the rate of increase in the CPI declined.

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

Percent change



However, the decrease was almost entirely attributable to declines in energy, as oil prices receded back below $100 per barrel. Food, apparel, and autos continue to see prices rise between 0.5% and 1.2% per month. In other words, we are far from out of the woods regarding the inflation battle.

Table A. Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average

	Seasonally adjusted changes from preceding month							Un-adjusted 12-mos. ended May 2011
	Nov. 2010	Dec. 2010	Jan. 2011	Feb. 2011	Mar. 2011	Apr. 2011	May 2011	
All items	.1	.4	.4	.5	.5	.4	.2	3.6
Food	.2	.1	.5	.6	.8	.4	.4	3.5
Food at home	.2	.2	.7	.8	1.1	.5	.5	4.4
Food away from home [1]	.1	.1	.2	.2	.3	.3	.2	2.2
Energy	.1	4.0	2.1	3.4	3.5	2.2	-1.0	21.5
Energy commodities	.7	6.4	4.0	4.8	5.5	3.1	-1.9	36.2
Gasoline (all types)	.7	6.7	3.5	4.7	5.6	3.3	-2.0	36.9
Fuel oil [1]	4.2	4.9	6.8	5.8	6.2	3.2	-.8	36.0
Energy services	-.8	.6	-.6	1.1	.2	.6	.6	1.1
Electricity	.6	.3	-.5	.4	.7	.2	.8	1.8
Utility (piped) gas service	-5.3	1.7	-1.2	3.4	-1.4	1.9	-.3	-1.2
All items less food and energy	.1	.1	.2	.2	.1	.2	.3	1.5
Commodities less food and energy commodities	.0	-.1	.2	.2	.1	.4	.5	1.2
New vehicles	-.2	-.1	-.1	1.0	.7	.7	1.1	3.4
Used cars and trucks	.1	-.1	-.3	.1	.8	1.2	1.1	4.1
Apparel	.1	.1	1.0	-.9	-.5	.2	1.2	1.0
Medical care commodities [1]	.2	.1	.5	.7	.5	.5	.0	3.0
Services less energy services	.2	.1	.1	.2	.2	.1	.2	1.6
Shelter	.1	.1	.1	.1	.1	.1	.2	1.1
Transportation services	.4	.2	.6	.5	.5	.2	.1	3.3
Medical care services	.2	.3	-.1	.4	.1	.3	.3	3.0

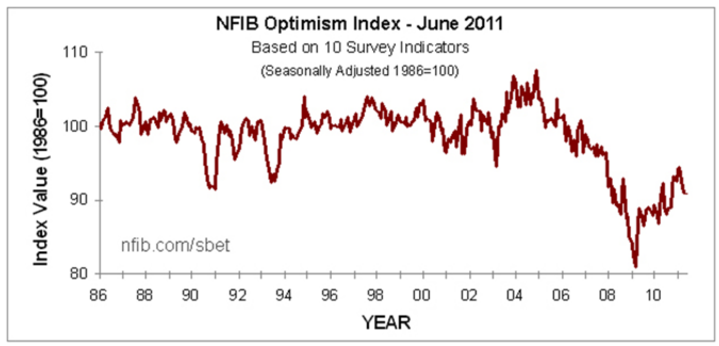
[1] Not seasonally adjusted.

The Bears:

The primary *"Bearish"* news of the week was:

- Another decline in the NFIB/small business index.
- Declining American and homebuilder confidence as both new NBC/WSJ and NAHB surveys indicate half of all Americans and homebuilders foresee the U.S. falling back into recession in 2H2011.
- Employment as payrolls decline in 27 states; and
- Total Sales for retail and food establishments turn negative for the first time since June 2010.

The NFIB's June Optimism Index Declines further:



The NFIB's chief economist Bill Dunkelberg summarized the latest index results quite well as follows:

> Corporate profits may be at a record high, but businesses on Main Street are still scraping by. Washington is throwing misdirected policies at the problem, offering tax breaks for hiring and equipment investment, but acting surprised when they don't bear any fruit. The failure to understand why small-business owners are not hiring or investing has resulted in a set of policies that have not been very effective, and Main Street is suffering. The icing on the cake: the growing debt, large deficits, threats of higher taxes, regulations being spewed out by state and local administrations, and the uncertainty of the new health care law—is it any wonder that optimism is down?

Declining Homebuilder and Consumer Confidence:

Two new surveys were released this past week that highlighted how pessimistic both Americans and homebuilders are about the future of the U.S. economy.

i. NBC/WSJ Survey of American Households: The nation's gloom over economic conditions poses a serious threat to incumbents in both Congress and the White House, according to a new NBC News/Wall Street Journal poll. The recently released nation-wide survey shows that nearly half of all Americans believe the country is headed back into recession. "The public is incredibly pessimistic about the future," said Peter Hart, the Democratic pollster who conducted the NBC/WSJ poll.

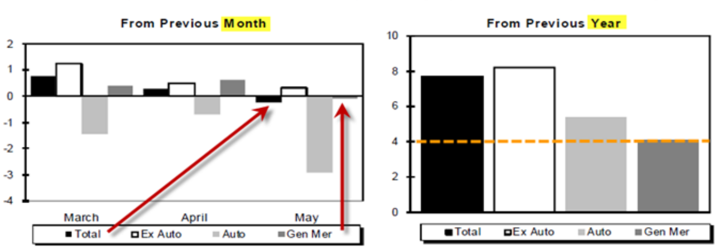
ii. National Association of Homebuilders Sentiment Survey: The nation's home builders haven't felt this bad about their market since the end of last year's tax credit. After six months of holding steady, the National Association of Home Builder's sentiment survey fell three points in June to 13. Fifty is the line between positive and negative sentiment on the survey. "Roofing, copper, wallboard, vinyl siding and other components have made it extremely difficult to construct a new home and sell it at a price that covers the costs," said NAHB Chairman Bob Nielsen. In this latest survey, builders reported weaker confidence in current sales and buyer traffic, which in turn pushed them to revise their sales outlook over the next six months. The "expectations" component of the survey dropped four points to tie a record low set back in February of 2009.

Retail Sales:

The *"Bearish"* news continued as the week progressed as the U.S. Census Bureau announced on Tuesday that advance estimates of U.S. retail and food services sales for May, adjusted for seasonal variation and holiday and trading-day differences, decreased 0.2% to $387.1 billion.

Percent Change in Retail and Food Services Sales

(Estimates adjusted for seasonal variation and holiday and trading-day differences, but not for price changes)



Closer examination of the detail sales by kind of business reveals the decline would have been much more severe had it not been for gasoline station sales (a 17.5% increase emphasized in red color font in the following table) and "non-store retailers" (a near 15% increase in electronic Internet sales as consumers shop for sales and curtail driving to shopping centers due to high gas prices). High gasoline prices are altering how consumers shop. Electronic Internet sales are benefiting from high gasoline prices.

Est. Monthly Sales for Retail & Food Services, by Kind of Business

(Total sales estimates are shown in millions of dollars and are based on data from the Advance Mont Trade Survey, and administrative records.)

NAICS[1] code	Kind of Business	5 Month Total 2011	5 Month Total % Chg. 2010	2011 May[3] (a)	2011 Apr. (p)	2011 Mar. (r)	2010 May	2010 Apr.
	Retail & food services, total ……	1,870,899	8.0	400,649	389,352	394,861	371,518	362,038
	Total (excl. motor vehicle & parts) .	1,534,237	7.1	331,649	319,075	318,879	306,142	297,491
	Retail ……	1,670,882	8.4	358,036	347,778	353,036	330,726	322,599
	GAFO[4]	(*)	(*)	(*)	93,182	93,875	92,760	88,208
441	**Motor vehicle & parts dealers ….**	336,662	12.4	69,000	70,277	75,982	65,376	64,547
4411, 4412	Auto & other motor veh. dealers	304,767	13.3	62,279	63,681	68,923	58,971	57,984
44111	New car dealers ……	(*)	(*)	(*)	51,960	56,083	48,052	46,802
4413	Auto parts, acc. & tire stores….	(*)	(*)	(*)	6,596	7,059	6,405	6,563
442	**Furniture & home furn. stores ….**	35,045	0.4	7,235	7,065	7,705	7,194	6,980
4421	Furniture stores ……	(*)	(*)	(*)	3,947	4,360	4,057	3,760
4422	Home furnishings stores ……	(*)	(*)	(*)	3,118	3,345	3,137	3,220
443	**Electronics & appliance stores …**	38,781	0.5	7,649	7,367	8,260	7,704	7,176
44311, 13	Appl., T.V. & camera……	(*)	(*)	(*)	5,714	6,264	6,090	5,612
44312	Computer & software stores….	(*)	(*)	(*)	1,653	1,996	1,614	1,564
444	**Building material & garden eq. & supplies dealers……**	119,489	5.1	32,076	27,627	24,543	28,815	29,140
4441	Building mat. & sup. dealers ….	(*)	(*)	(*)	20,996	19,636	22,552	22,444
445	**Food & beverage stores……**	247,946	4.6	51,875	51,079	50,159	49,833	47,230
4451	Grocery stores ……	223,890	4.9	46,650	45,870	45,355	44,638	42,247
4453	Beer, wine & liquor stores ……	(*)	(*)	(*)	3,495	3,353	3,511	3,376
446	**Health & personal care stores ….**	112,965	5.5	22,750	22,458	23,848	21,551	21,698
44611	Pharmacies & drug stores ……	(*)	(*)	(*)	18,758	19,858	18,333	18,383
447	**Gasoline stations ……**	**213,495**	**17.5**	48,055	46,030	44,427	39,453	38,553
448	**Clothing & clothing accessories stores ……**	84,612	5.1	18,611	18,447	18,086	17,787	17,087
44811	Men's clothing stores ……	(*)	(*)	(*)	747	646	666	669
44812	Women's clothing stores ……	(*)	(*)	(*)	3,368	3,243	3,252	3,268
44814	Family clothing stores ……	(*)	(*)	(*)	7,129	7,083	6,978	6,824
4482	Shoe stores ……	(*)	(*)	(*)	2,285	2,250	2,159	2,168
451	**Sporting goods, hobby, book & music stores……**	32,873	5.7	6,624	6,707	6,910	6,334	6,104
452	**General merchandise stores……**	244,420	2.8	52,308	50,925	50,089	50,997	48,229
4521	Department stores (ex. L.D.)……	68,137	-1.9	14,597	14,529	14,197	15,062	14,309
4521	Department stores (incl. L.D.)[5]…	(*)	(*)	(*)	14,805	14,467	15,271	14,510
4529	Other general merch. stores….	(*)	(*)	(*)	36,396	35,892	35,935	33,920
45291	Warehouse clubs & supercenters……	(*)	(*)	(*)	31,802	31,367	31,487	29,542
45299	All oth. gen. merch. stores….	(*)	(*)	(*)	4,594	4,525	4,448	4,378
453	**Miscellaneous store retailers …..**	46,824	9.2	10,740	9,545	9,516	9,685	8,806
454	**Nonstore retailers ……**	157,770	14.9	31,113	30,251	33,511	25,997	27,049
4541	Elect. shopping & m/o houses ..	(*)	(*)	(*)	22,997	24,693	20,294	20,721
722	**Food services & drinking places .**	200,017	4.9	42,613	41,574	41,825	40,792	39,439

The *"Bewildered:"*

The *"Bewildering"* news of the week ranged from reconciling the results of the NAHB homebuilder survey and declining home prices with increasing housing starts, to explaining the decline in weekly jobless claims with payrolls contracting in 27 states. Pessimism over manufacturing activity while output increased in May was also *"Bewildering."*

The "Bewildering" from this past week really is not that confusing. Here is a quick run-down of the primary data releases that seem inconsistent with the macro market trend:

- Increasing Housing Starts in light of the NAHB homebuilder survey indicating weaker confidence in current sales and buyer traffic – The increase in starts was attributable primarily to apartments where demand has been recovering. Single-family starts were down in the Northeast and were up less than 10,000 units in each of the other 3 regions.

- Manufacturing Output rising in light of the decline in the NFIB/small business index – although small businesses continue to struggle primarily with anemic sales and are reluctant to expand, demand for U.S. goods and agriculture remain elevated in Asia and India. It's offshore demand that is driving U.S. manufacturing.
- A decline in weekly jobless claims contrasted with a lack of hiring in 27 of the 50 states. Weekly claims are volatile and can rise or fall due to the timing of events like layoffs from tornadoes or government layoffs by states rolling over to new fiscal year budgets. It's the 4-week moving average in weekly claims that should be monitored, and it has remained above the threshold 400,000 claims level for nearly two months.
- Slowing in the pace of inflation and the CPI compared to a new NBC/WSJ survey that shows nearly half of Americans still concerned with rising inflation and believing the U.S. is headed back into recession – the May decline in the CPI was due to the recent drop in oil prices back below $100 per barrel. Gas prices are still up 30% over a year ago. Food, apparel, and auto prices all continue to rise at rates in excess of 0.5% per month. The decline in the rate of CPI increase to 0.2% in May reflects the drop in energy prices, not relief in food or other prices.
- The decline in the yield on long-term U.S. Treasury rates to below 3.0% as the U.S. faces a much more severe debt crisis than Europe and the IMF warns the U.S. of the risks of inaction or default on our debt later this summer. I understand the arguments about the U.S. dollar and Treasury debt being the reserve currency and a haven for liquidity in times of crisis, but it also seems to be inconsistent with the numbers – like our GDP to Debt ratio.

All-in-all, the U.S. economy is being held back by uncertainty and "Bewilderment" over how to resolve our debt, employment, and housing challenges. Hence, I believe the appropriate market score remains *"Bewildered."*

WEEKLY REVIEW OF KEY ECONOMIC & FINANCE RATES

US Unemployment (MAY):		**Treasury Rates (June 10):**	
U-3 (official rate)	9.1%	2-Year Tr	0.37%
U-6 (total rate)	15.8%	10-Year Tr	2.94%
Jobless Claims: (MAY 28)		**LIBOR** (6-mo):	0.39%
Initial (June 11)	414,000	3-Month	0.25
Initial (Prior Wk)	430,000	1-year	0.72
4-Wk Average	424,7500	**PRIME %** (US)	3.25%
	(Unchanged)	(Next FOMC Mtg June 21)	
Home Foreclosures:		**Mortgage Rates (June 11):**	
CY 2011 (Est.)	1,100,000	30-yr Fixed	4.81%
CY 2010	1,005,000	(down 1 basis point)	
CY 2009	918,000	15-yr Fixed	4.06%
Dec 2010	69,847	(down 1 basis point)	

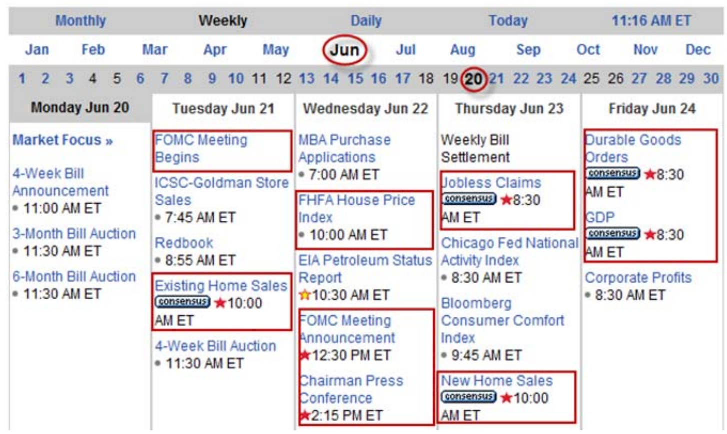
Gross Domestic Product:		**Consumer Price Index:**	
Q1 2011(revised)	**+1.8%**	**May 2011**	**+0.2%**
Q4 2010	+2.8%	Apr 2011	+0.4%
Q3 2010	+2.6%	Mar 2011	+0.5%
CY 2010	+2.9%	Mar 2010	0.0%

CMBS Delinquency: 9.60% - May 2011 – down 5 bps
(Source: TREPP) 9.65% - April 2011 – up 23 bps
9.42% - March 2011 – up 3 bps
9.39% - February 2011 – up 5 bps
9.34% - January 2011 – up 32 bps

Commodities:

Gold ($/oz June 11)	1,539	**Oil** (WTI) Jun 11' 11	$ 93.01
Gold (high: 5/4/11)	1,541	Oil (High)Jun 13' 08	$135.00
Gold (5-yr low: 1/06)	540	Oil (Low)Jan 09/ 09	$ 40.83

THE WEEK AHEAD: JUNE 020 – JUNE 24



For the week ahead, market participants will get some relief from the volume of economic data releases for a couple of weeks when Q2 ends and a new season of earnings releases commences. The two major events of next week will be the Federal Reserve's FOMC meeting and release of the FHFA home price index (a broader look of home prices than the Case-Shiller index, as it's based on paired sales across all 360+ U.S. MSAs. As a result, there will not be a Weekly Market Recap next week due to: i) my travel schedule and participation at the IPT property tax conference; and ii) the light volume of market-moving data.

DISCUSSION ITEM:

This week's discussion item is a brief overview of some takeaways from the CREFC conference held last week in New York. It was attended by our regional managing directors for the northeast, southeast, and west coast - Patrick Craig, MAI, Jerry Gisclair, MAI, and Jason Lund, MAI, respectively.

The conference was well attended and confirmed at least five macro trends that we have been observing as a company - and have covered in the WMRs in recent weeks:

- Capital has returned to commercial real estate and its risk appetite has expanded in search of yield.
- The risk appetite has expanded beyond core markets and Class A multifamily and office properties to secondary markets and virtually all property types, including RV parks, self storage and a broad variety of retail. This expanded risk appetite is clearly evident in the just priced JPM (JPM 2011-C4) and Wells Fargo (WFRBS 2011-C3) new issuances.
- The outlook for 2011 CMBS origination volume has softened from the optimism in January of $50-$75 billion to now just $35-$50 billion. This revised outlook reflects: i) the challenge sourcing deals and underwriting in secondary markets; ii) anxiety over market volatility and pricing; and iii) other entrants back into securitization, including the FDIC and NCUA. How does the private CMBS market compete with FDIC issuance that includes guarantees on the top 80% of the debt - and prices at just 1.84%?
- Floating rate debt is back as a means for distressed retail to bridge the gap between distressed and stabilized. The floating rate debt allows time for a property to lease up and stabilize without the baggage of prepayment penalties and rate locks.
- B-piece buyers are concerned the "creep" back to CMBS 1.0 underwriting is at hand. The concern expressed by B-Piece buyers is that the "creep" will accelerate to a leap as issuers rush to get deals completed prior to finalization of the Risk Retention rules called for in Dodd-Frank. A decision has been deferred until August 1st.

To this latter item, NY Times interviewed me for a piece last week about whether CMBS 2.0 is really that different from CMBS 1.0. The article will be published this Wednesday June 22nd, and it was written by Julie Satow.