



Capital Metes and Bounds

By James M. Murphy, CMB, CRI

A Lesson from Abraham Lincoln

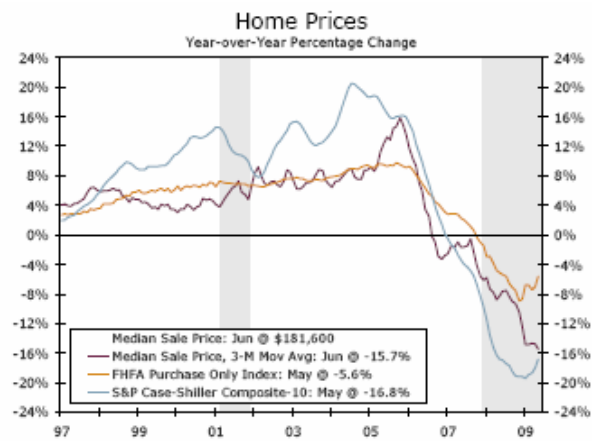
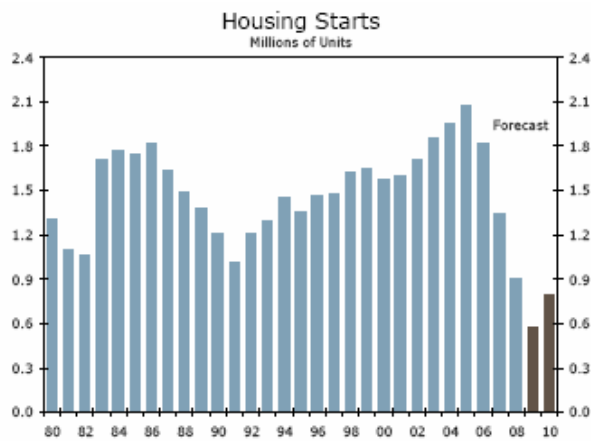
President Obama professes to be a fan of Abraham Lincoln and has taken a page from Doris Kearns Goodwin's Team of Rivals in creating his own cabinet. There are some other words of wisdom from President Lincoln that would be good advice as he strives to run our country. They are as follows:

- You cannot strengthen the weak by weakening the strong.**
- You cannot lift the wage earner by pulling down the wage payer.**
- You cannot help the poor man by destroying the rich.**
- You cannot keep out of trouble by spending more than your income.**
- You cannot further the brotherhood of man by inciting class hatred.**
- You cannot establish security on borrowed money.**
- You cannot build character and courage by taking away men's initiative and independence.**

Some small businessmen and some consumers seem to think that current economic policy is in contravention of many of these Lincoln thoughts. As has been said often here, commercial real estate is joined at the hip with the economy and specifically with jobs. While the spin-meisters would have us think that the loss of "only 247,000 jobs" in July is a good thing, it means the economy is still contracting and until the number of jobs actually increases, commercial real estate recovery continues to lie somewhere out there in the ether.

In an effort to maintain a positive tone, the mitigating losses are somewhat good news and there are further signs of a reversal of fortune for the United States. The graphs and charts below demonstrate where the good news lies.

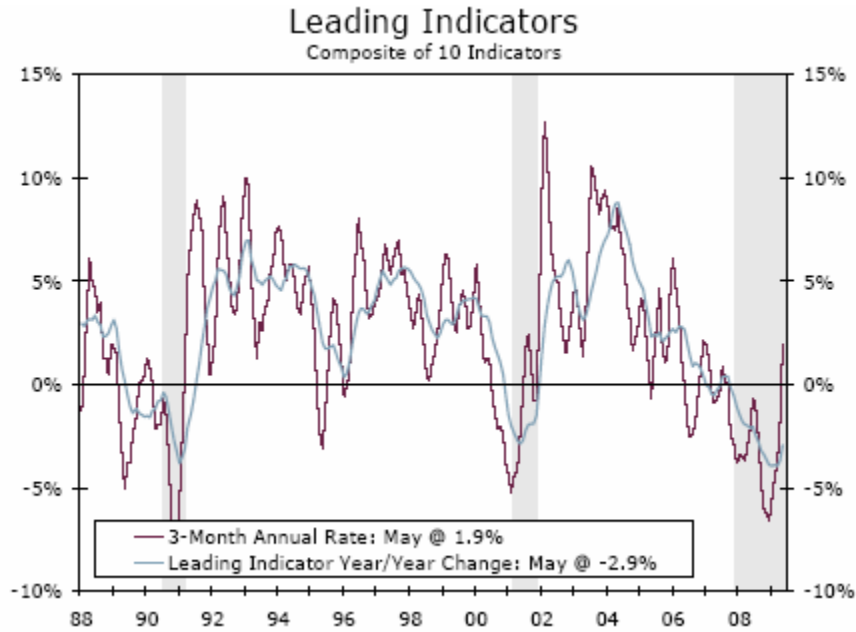
Everyone knows that the United States economy is consumer driven with consumer spending amounting to nearly 70% of the Gross Domestic Product. Until the consumer feels good about the economy, there will be no rebound and the primary asset for consumers is their home. It is therefore good news that both the housing inventory for sale and the number of months required to sell a home is moderating, as shown below. Softness remains in the heartland and Florida, but elsewhere there is continued improvement.



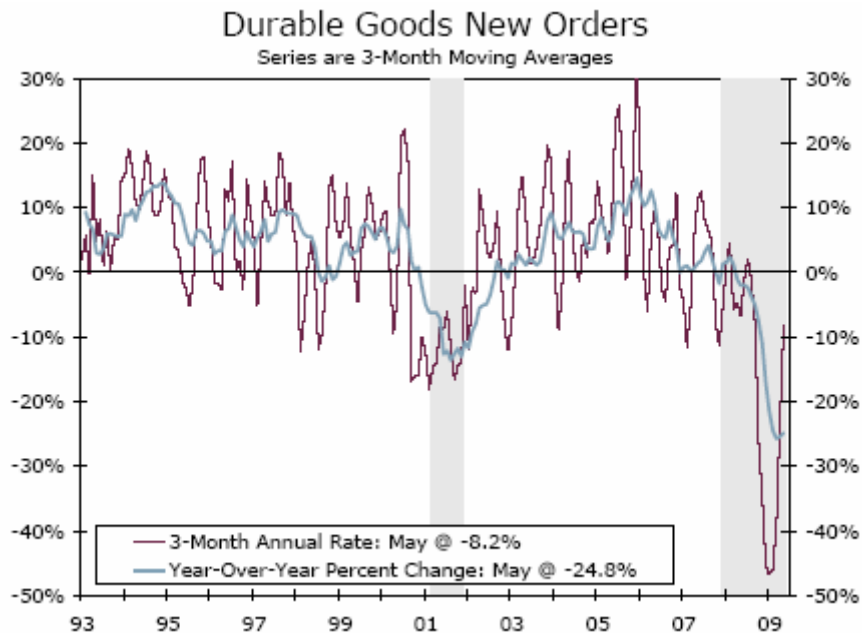
Source: FHFA, NAR, S&P Corp, U.S. Department of Commerce and Wells Fargo Securities, LLC

Metro Area	Change in Housing Inventory	Months' Supply	Price Drop From Peak	Jobless Rate	Loan Payments Overdue
Manhattan	8.7%	14.7	n.a.	n.a.	n.a.
New York	-3.5%	n.a.	-20.7%	8.5%	8.0%
Nashville	-5.2%	16.2	-5.3%	9.1%	5.7%
Raleigh, N.C.	-6.6%	n.a.	-5.7%	8.6%	4.1%
Chicago	-7.3%	18.1	-23.8%	10.4%	7.1%
N.J. suburbs	-7.7%	12.8	n.a.	n.a.	n.a.
Philadelphia	-8.6%	11.6	-10.9%	8.5%	5.6%
Charlotte, N.C.	-9.2%	15.3	-7.0%	11.6%	6.5%
Boston	-9.3%	7.4	-18.8%	8.0%	6.0%
Las Vegas	-10.0%	7.9	-53.7%	11.1%	15.1%
Dallas	-11.3%	7.1	n.a.	7.5%	5.8%
L. Island/Queens	-13.5%	10.1	n.a.	n.a.	n.a.
St. Louis	-14.4%	8.9	-6.7%	10.1%	5.4%
Jacksonville, Fla.	-15.9%	18.2	-27.3%	10.0%	9.0%
Seattle	-17.5%	10.8	-19.9%	9.3%	5.6%
Detroit	-18.1%	14.1	-31.9%	14.9%	7.3%
Denver	-19.6%	6.1	-8.3%	8.7%	5.4%
Portland, Ore.	-20.0%	10.8	-16.7%	12.5%	5.3%
Mpls-St. Paul	-21.6%	7.8	-23.2%	8.2%	5.4%
Houston	-22.4%	6.7	n.a.	7.2%	5.8%
San Francisco	-23.3%	9.8	-29.1%	9.9%	7.1%
Orlando	-25.8%	13.9	-43.9%	10.5%	12.2%
Atlanta	-26.0%	11.7	-17.1%	9.6%	8.0%
Tampa	-26.1%	11.1	-40.4%	10.9%	10.4%
Washington, D.C.	-26.6%	6.9	-26.8%	6.3%	7.4%
Miami	-28.3%	18.3	-43.9%	9.6%	13.4%
San Diego	-34.4%	4.3	-34.5%	9.8%	9.8%
Phoenix	-36.1%	5.7	-44.9%	8.0%	11.2%
Los Angeles	-37.3%	5.9	-33.9%	11.3%	10.0%
Orange Cnty, Calif.	-38.4%	4.0	-32.4%	8.7%	9.4%
Sacramento	-43.3%	2.7	-42.4%	11.7%	10.9%

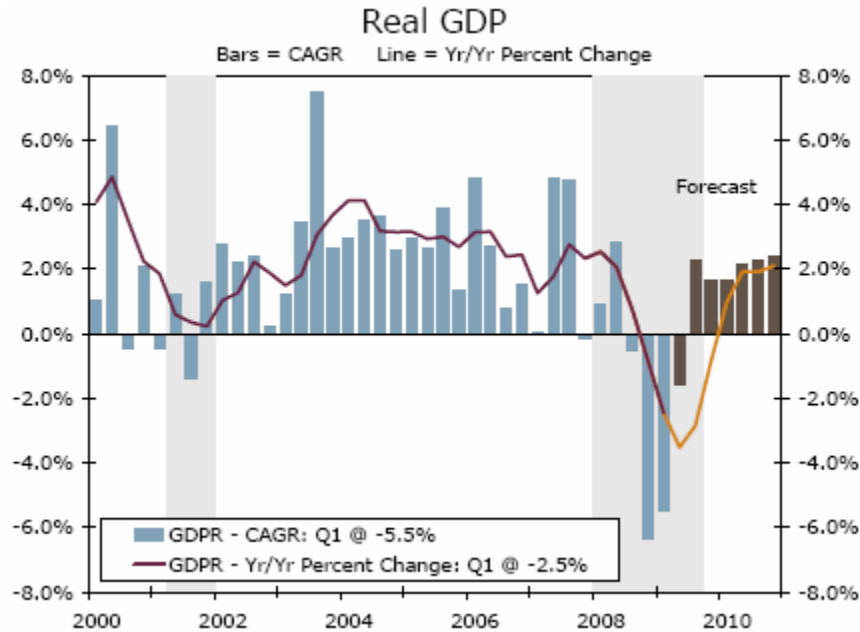
The government's ten leading indicators have turned upward and are now positive.



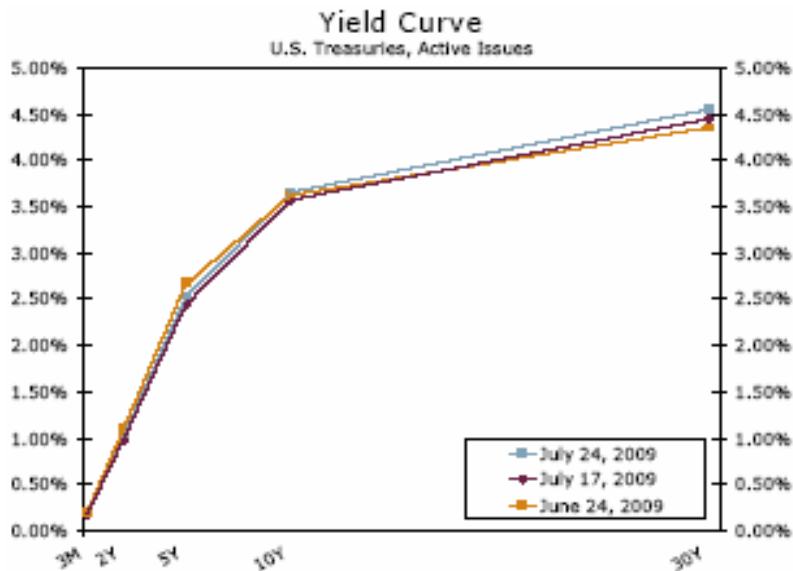
Durable goods orders are likewise on the rise and the “cash for clunkers” program has probably brought even more improvement, although one could argue the merits of the government using taxpayer money to subsidize any industry.

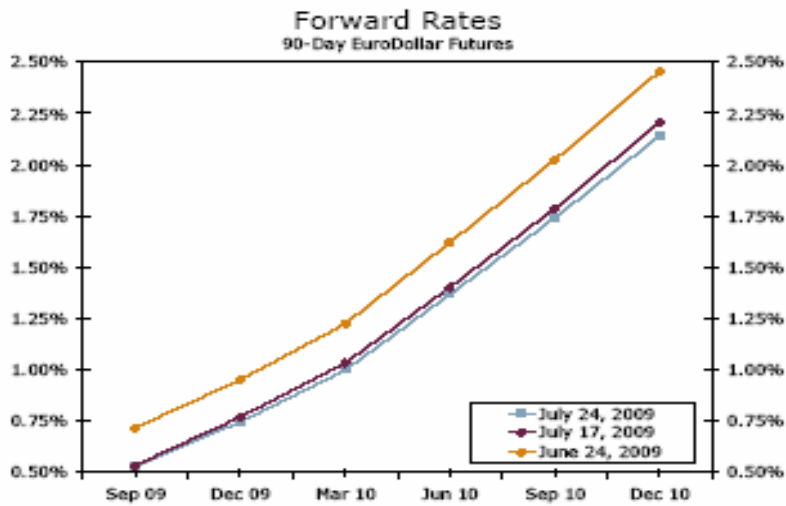


Real GDP has also shown a return to modest growth, but the new normal in the 2% range is far less than the Obama economic team has forecast when gauging future deficits; we are likely to overshoot their projections on the downside.

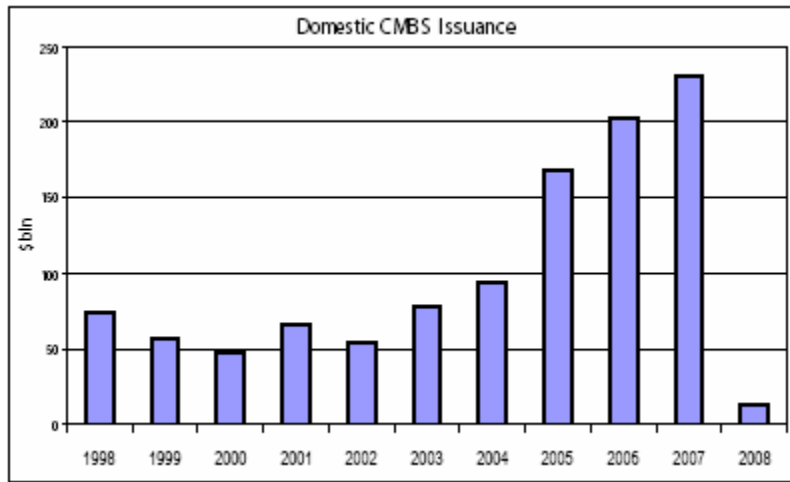


Meanwhile, the yield curve has steepened and the futures market is indicating rising rates as would be expected given unprecedented growth in the money supply by the Federal Reserve and federal deficits as far as the eye can see. Hopefully China continues as a willing purchaser of the ever growing mountain of United States debt as funded by the sale of Treasury notes. The fact is that China has little alternative given its own massive trade surplus but that doesn't mean that it won't demand higher returns from a deflating U.S. dollar.

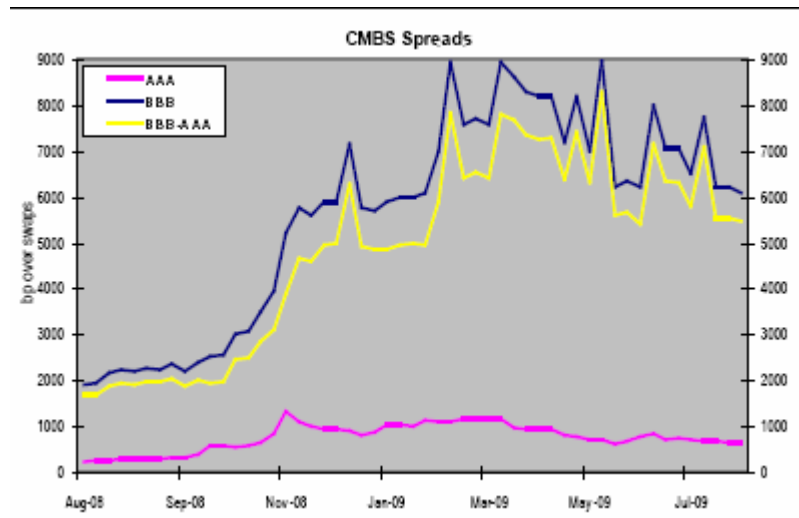




Please note that there is no bar below for 2009 CMBS Issuance as it is virtually non-existent.

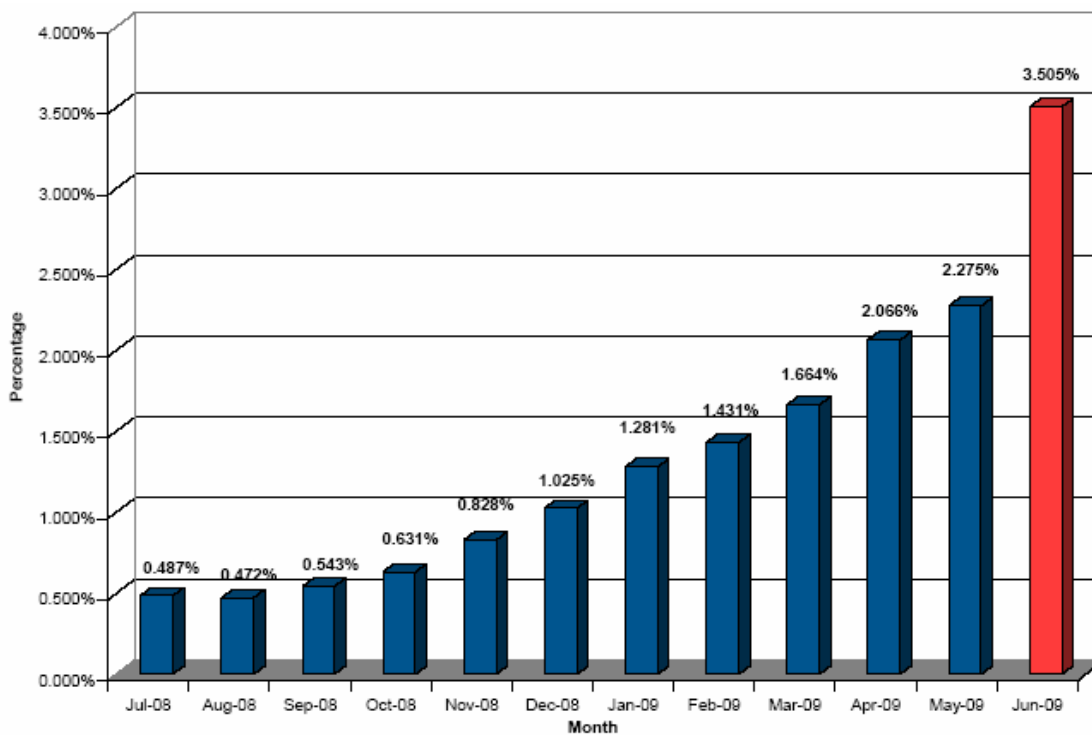
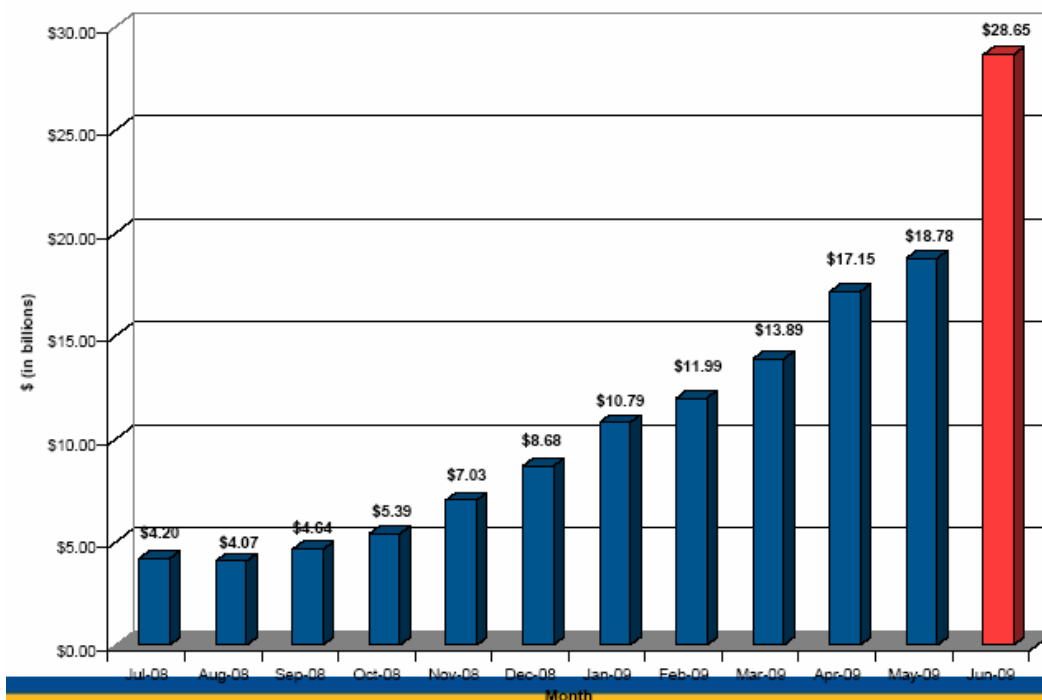


Spreads for existing issue have narrowed, but insufficiently to create a real demand in the market and skepticism abounds as to the quality of the product in recent issues. As long as spreads remain this wide, the CMBS market will be defunct.

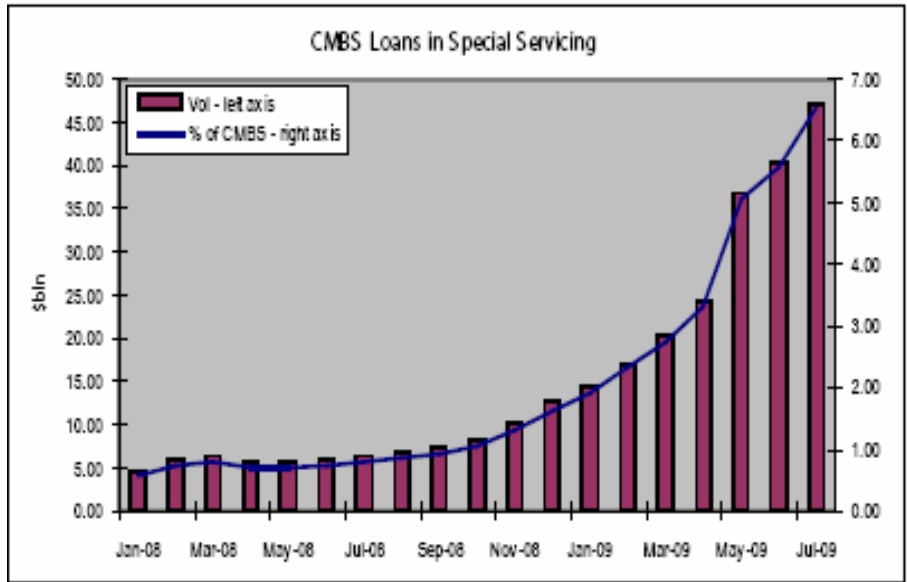


The skepticism is bolstered by rising delinquency in both dollar denominations and percentage of deals in default.

Charts 1 and 2 – Monthly CMBS Delinquency: Balance vs. Percentage (source: Realpoint)

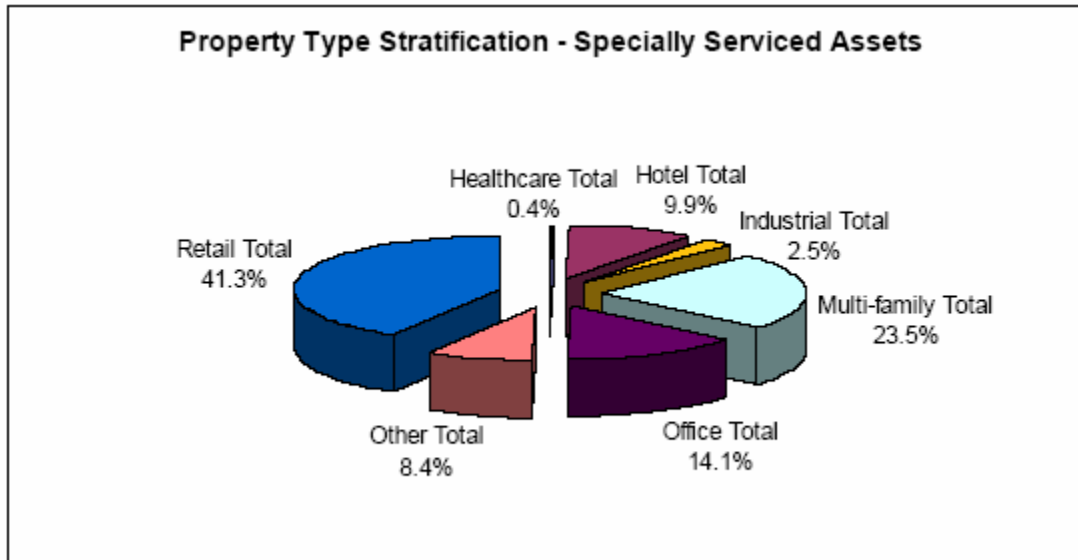


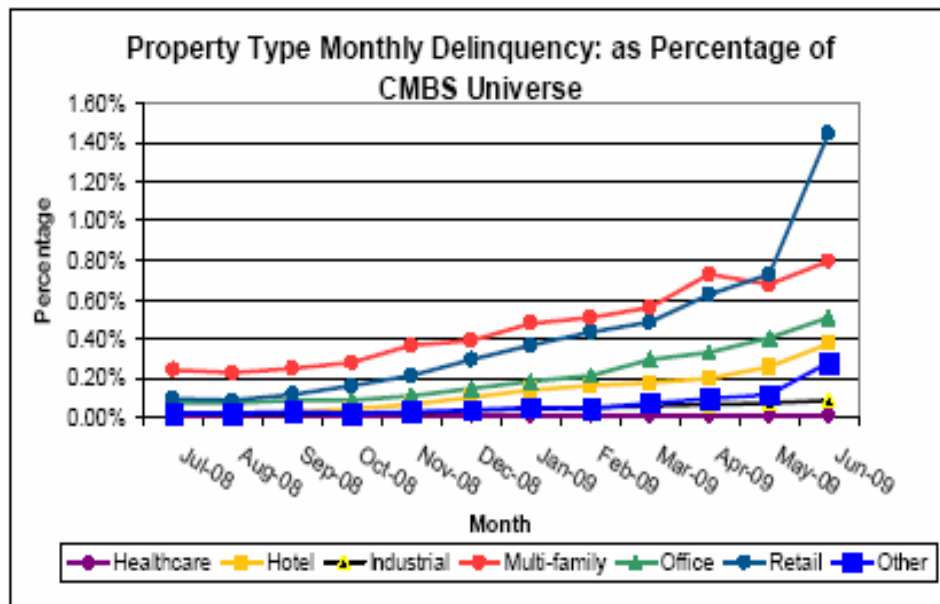
Meanwhile, the potential for tranche warfare grows as maturity defaults increase and special servicers grant one year extensions to preserve their own positions as holders of the subordinated tranches to the dismay of the holders of A rated paper.



Source: Realpoint

As of July, industrial continued to be the best performer among the four main asset classes.





Source: Commercial Real Estate Direct

Here at Q10 New England Realty we continue to commit and close loans with our Correspondent Life Insurance Companies. Depending on size and loan to value, rates vary from the mid 6% to the mid 7% range. We were recently able to secure an offer of a 7.1% interest rate, interest only for a large industrial portfolio acquisition at 50% of acquisition price. Another major life insurance lender has reduced their floor rates from 7.85% at the beginning of the year to 6.75% in the past week. Transaction volume is beginning to emerge at capitalization rates in the 8.75% to 9.25% for investment grade real estate.

The best description of the capital market today is spotty. We find a need to be in constant touch with all of lenders as pockets of money spring up in varying amounts, for different maturities on a daily basis. Unless an owner/investor is willing to commit full time resources to market research, it is impossible to know what is available. This is why anyone seeking debt in this environment should rely upon his capital markets representative at Q10|New England Realty to get the pulse of what is happening. Please call you representative listed below today for more information.