



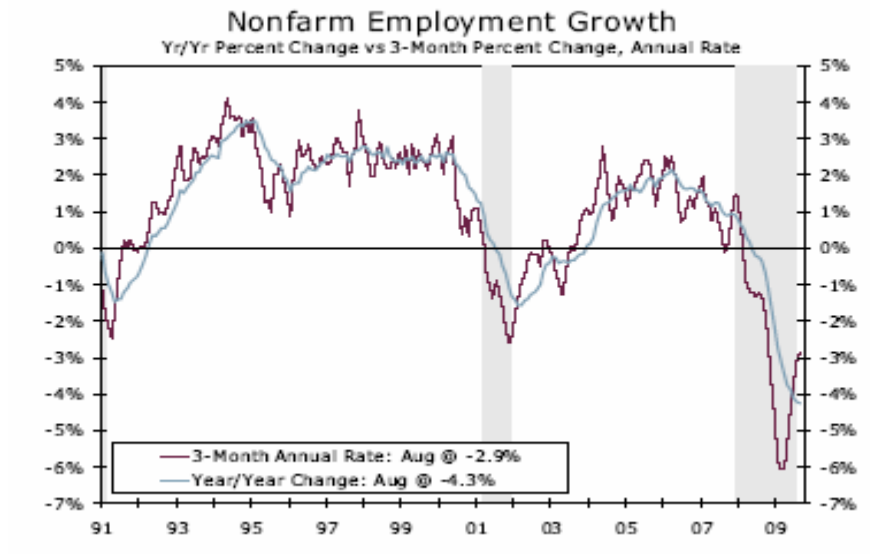
Capital Metes and Bounds

By James M. Murphy, CMB, CRI

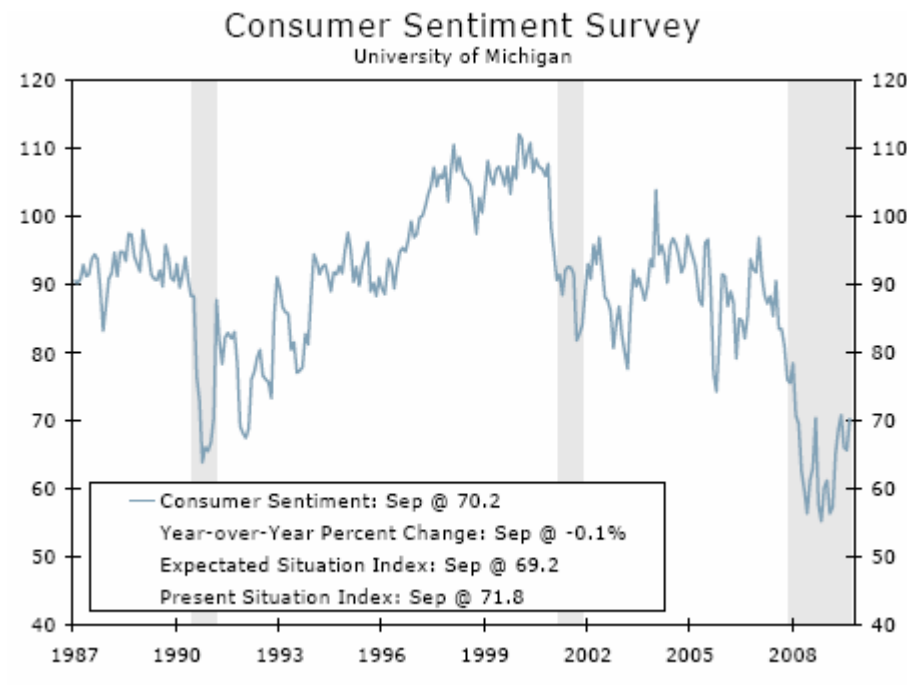
The focus of this newsletter continues to be the economy and its effects on the commercial real estate and capital markets. There continues to be both bad and good news on the economic front. The press misleads when it speaks to 6 million lost jobs since the beginning of the current recession. The real number is higher. The Federal Reserve just released the third quarter beige book analysis of the economy and the numbers below tell the story. Since employment peaked in November of 2007, we have lost over 8 million jobs nationally or 5.8% of total employment. The news for New England is that total job losses amounted to only 319,000 or 4.47%. Since commercial real estate was, is and always will be about employment, there will be no turnaround in the fundamentals until we see job growth. There are signs, however, that the economy is improving as many of the charts below indicate.

TOTAL NONFARM EMPLOYMENT (‘000s, NOT SEASONALLY ADJUSTED) Source: U.S. Bureau of Labor Statistics.										
Date	US	NE	CT	ME	MA	NH	RI	VT		
Nov-07	139,090	7,133	1,724	625	3,325	651	495	311		
Dec-07	138,875	7,142	1,731	624	3,322	655	493	316		
Jan-08	135,840	6,930	1,685	597	3,226	638	474	307		
Feb-08	136,356	6,948	1,688	597	3,239	637	476	308		
Mar-08	136,944	6,971	1,693	600	3,254	638	478	307		
Apr-08	137,543	7,039	1,705	607	3,293	641	485	305		
May-08	138,190	7,109	1,717	619	3,320	650	490	309		
Jun-08	138,451	7,148	1,725	631	3,337	656	490	309		
Jul-08	137,050	7,055	1,691	627	3,304	649	481	301		
Aug-08	137,002	7,038	1,687	627	3,292	650	481	301		
Sep-08	137,119	7,074	1,699	626	3,304	651	486	309		
Oct-08	137,492	7,080	1,707	623	3,309	650	484	310		
Nov-08	136,882	7,034	1,701	618	3,287	647	480	304		
Dec-08	135,917	6,982	1,695	612	3,254	644	475	304		
Jan-09	132,302	6,766	1,646	.	3,154	629	457	295		
Feb-09	132,138	6,758	1,636	.	3,156	629	457	296		
Mar-09	132,077	6,748	1,634	.	3,152	627	457	294		
Apr-09	132,336	6,791	1,641	.	3,179	627	463	292		
May-09	132,720	6,860	1,653	.	3,208	635	468	295		
Jun-09	132,625	6,902	1,655	.	3,228	642	469	296		
Jul-09	131,182	6,814	1,626	.	3,196	634	463	290		
Aug-09	131,003		
Losses	8,087	319	99	13	130	17	32	22		
% Loss	5.81%	4.47%	5.71%	2.02%	3.89%	2.63%	6.53%	6.97%		

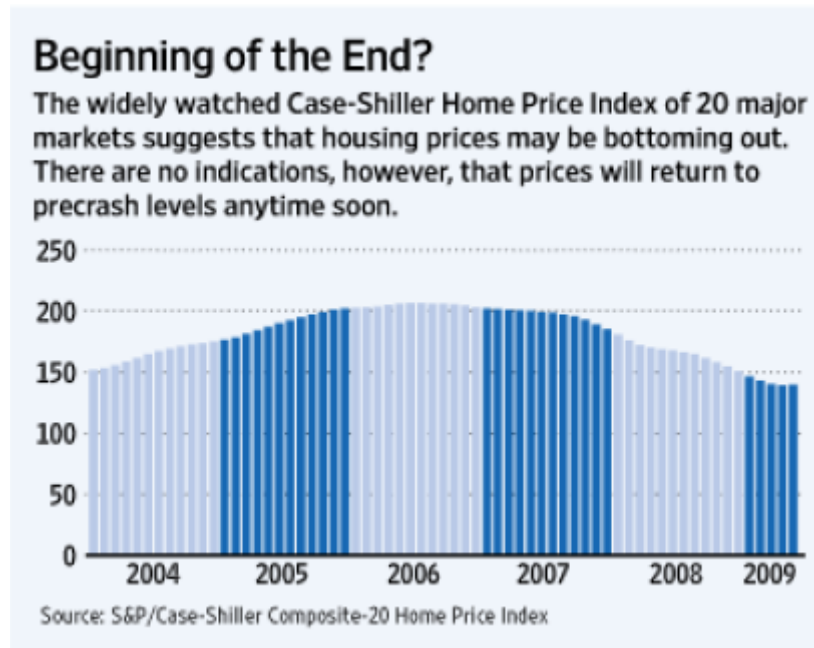
The pace of job destruction continues to moderate with the three month average now under 3%.



Consumer sentiment has begun to improve and is now higher than at the beginning of the 1990's recession.



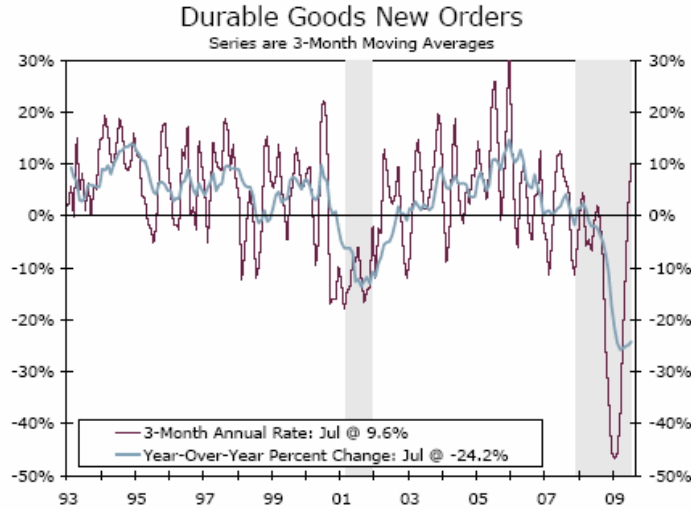
Until the consumer (70% of Gross Domestic Product) feels better about his or her future, spending will be held in check. The beginning of the “feel better” needs to be with the consumer’s largest asset, the home. As the Case-Schiller index shows, housing may be bottoming.



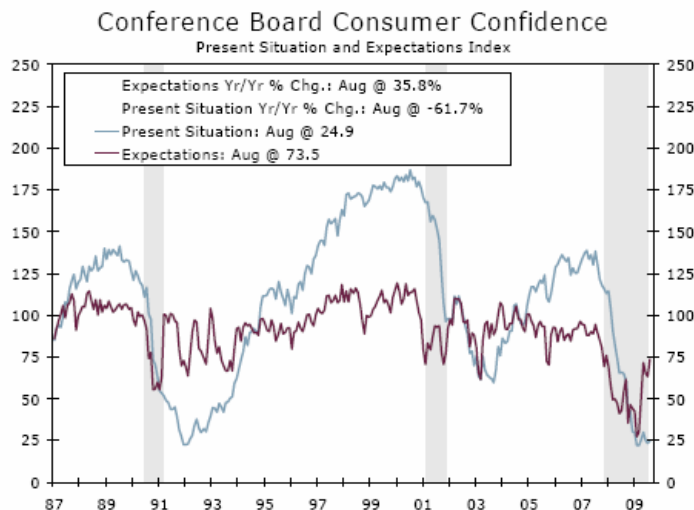
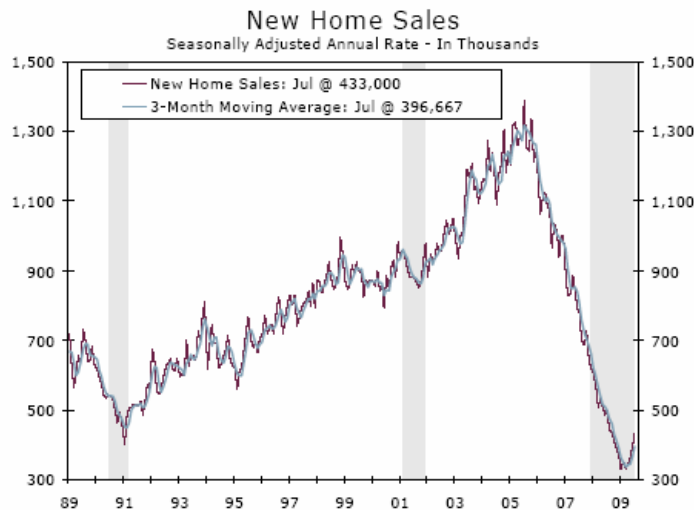
In fact, according to the index, home prices actually increased in ten major metropolitan markets during the second quarter for the first time since 2006.



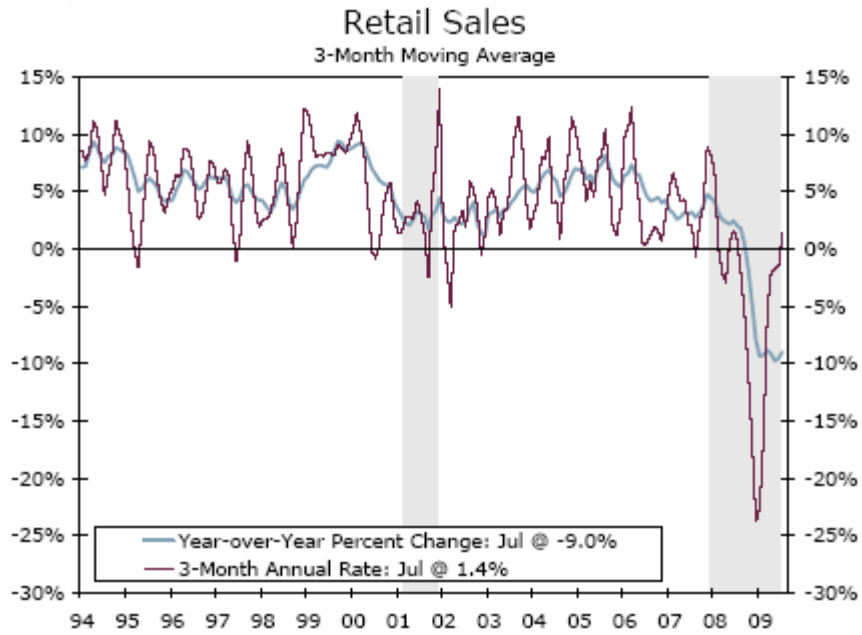
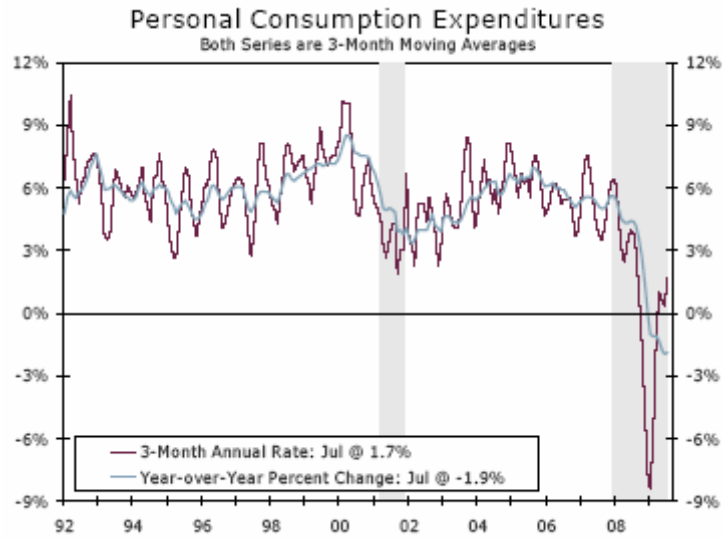
Orders for durable goods have moved into positive territory.



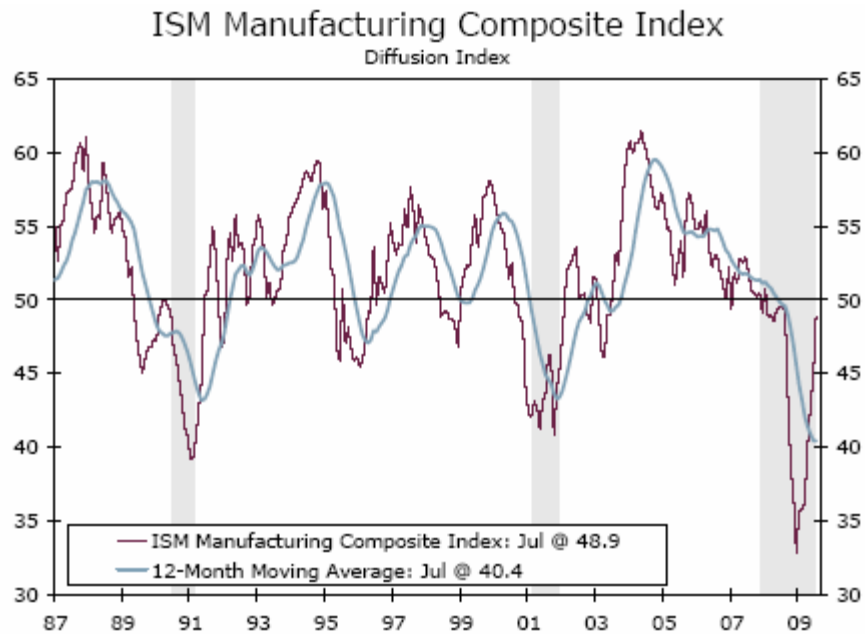
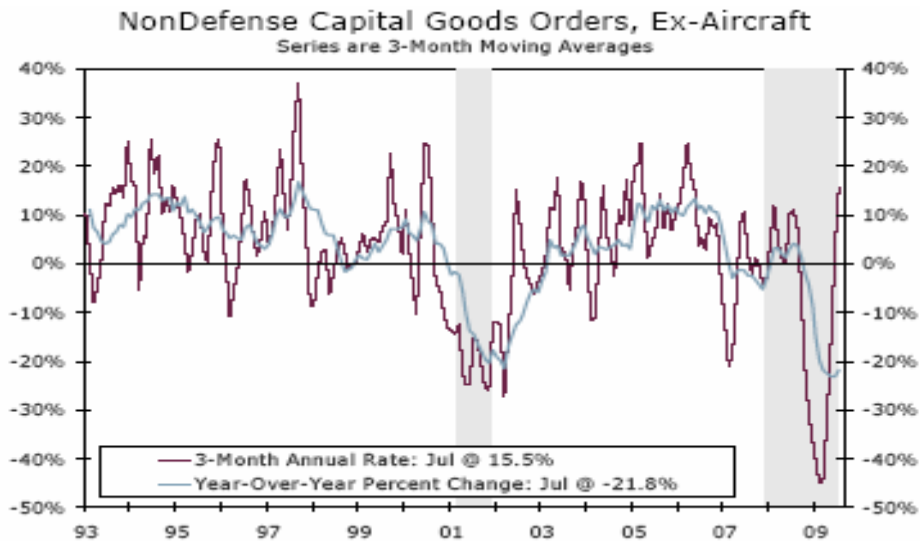
Existing home sales are now running at 4.6 million annual rate and new home sales are now running at over 400,000 annually. The result is a boost in consumer confidence.



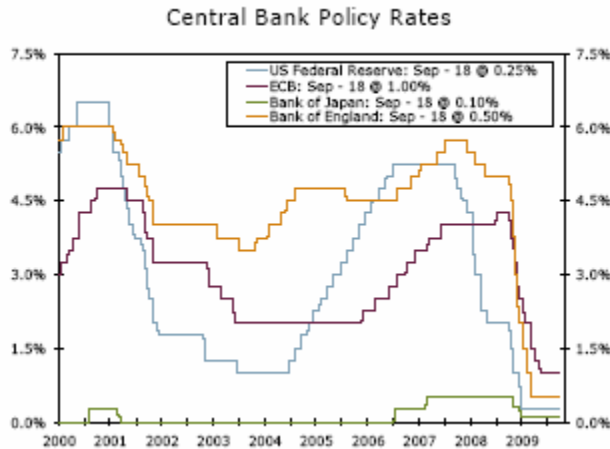
The improvement in confidence is resulting in an improvement in consumption and retail sales.



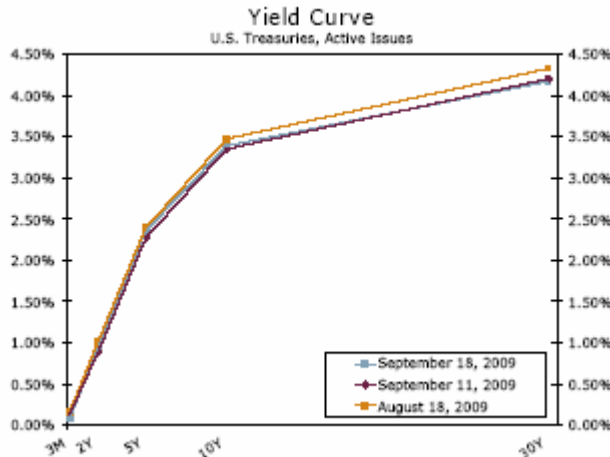
Both the non defense spending and Ism manufacturing index have improved dramatically and once the ISM index crosses 50%, it will mean growth in inventories – a very good and necessary indication that companies have begun to replenish their runoff in anticipation of improved sales. This will help the warehouse industry.



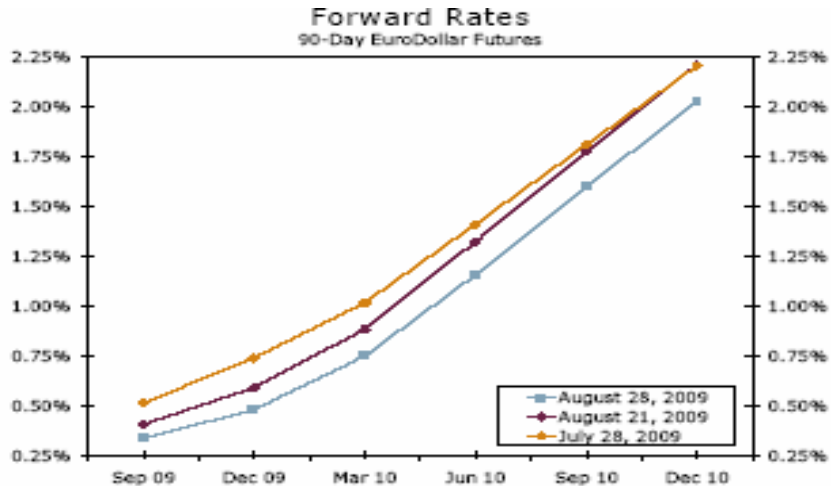
On the capital front, central banks worldwide are working hard to keep short term borrowing rates at record lows.



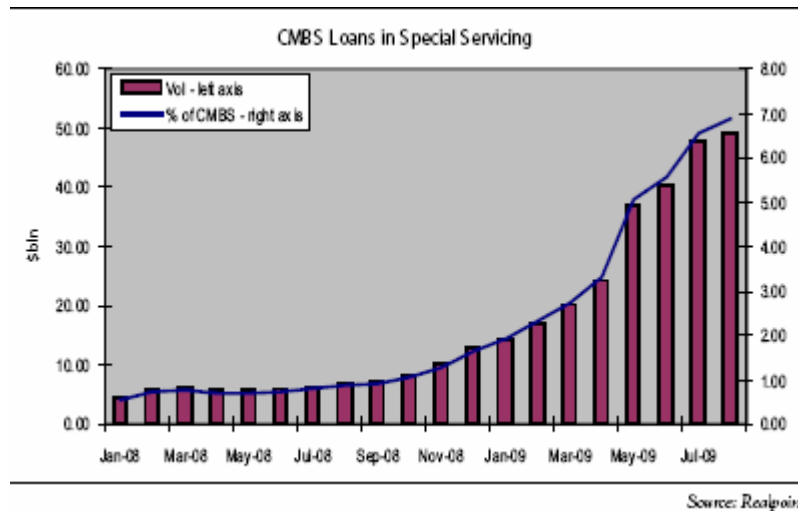
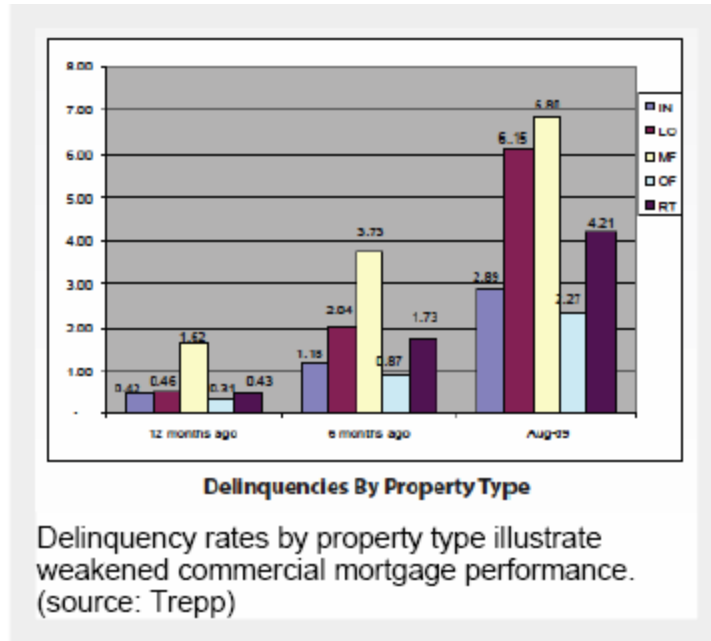
The Federal Reserve is doing its part with the help of China and the result is 35 year lows across the yield curve which will result in help to homeowners looking to refinance out of adjustables.



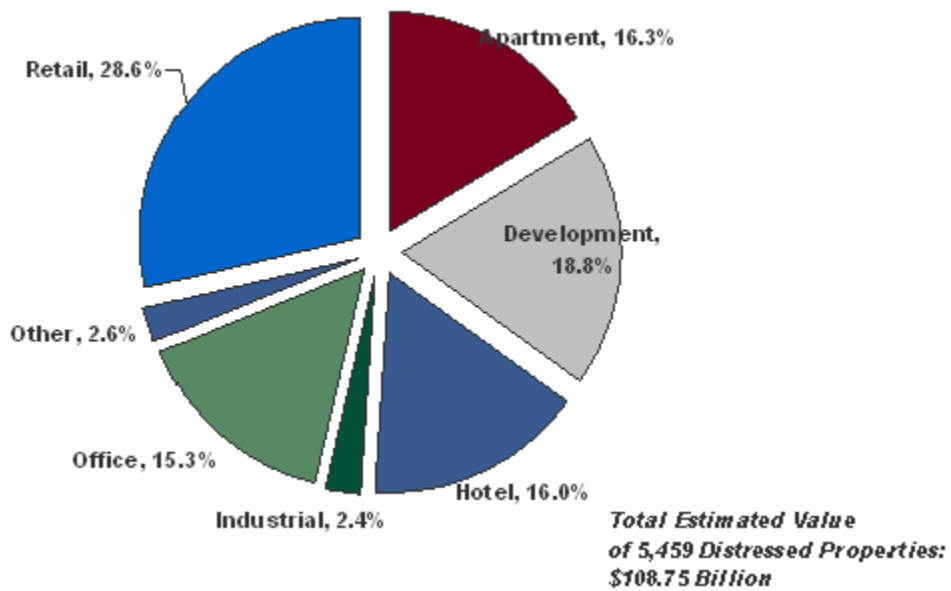
The forward curve is predicting increasing rates during the course of 2010 as the Federal Reserve moves against anticipated inflation, but this is probably unlikely while the economy hovers at slow or now growth and the consumer struggles to keep up on the mortgage.



There does not seem to be an end in sight for the CMBS market. Delinquencies continue to grow and it appears the only sources of capital for commercial real estate will be the life insurance industry, local and regional banks and mortgage REITs looking to prey on ownership.

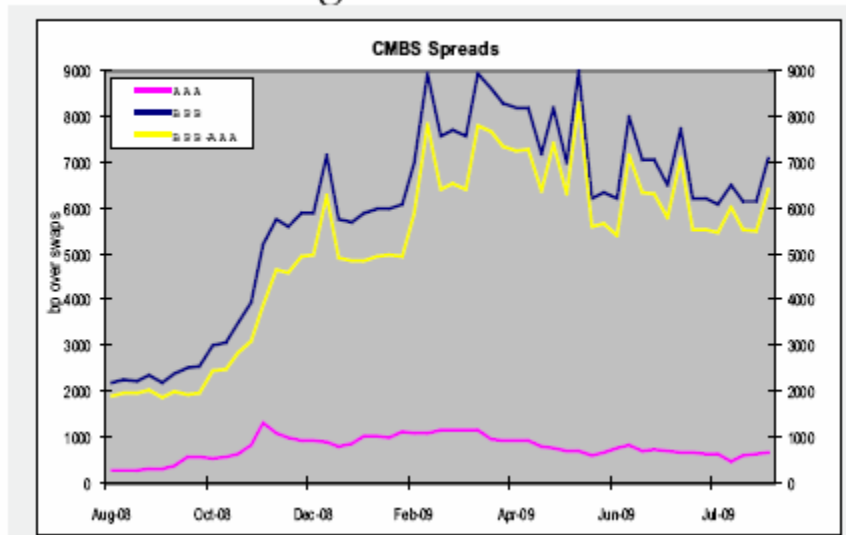


Distress is across all property types, but Industrial continues to perform best.

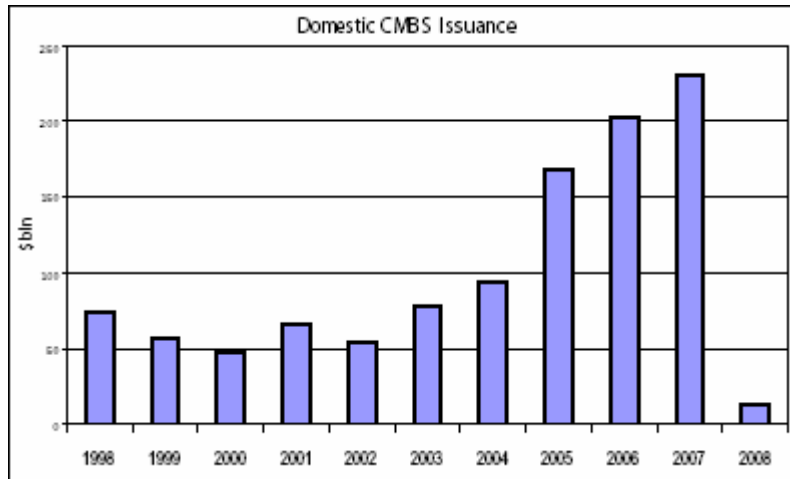


The resulting pricing of CMBS is still unpalatable and unworkable for commercial real estate.

CMBS Pricing Matrix

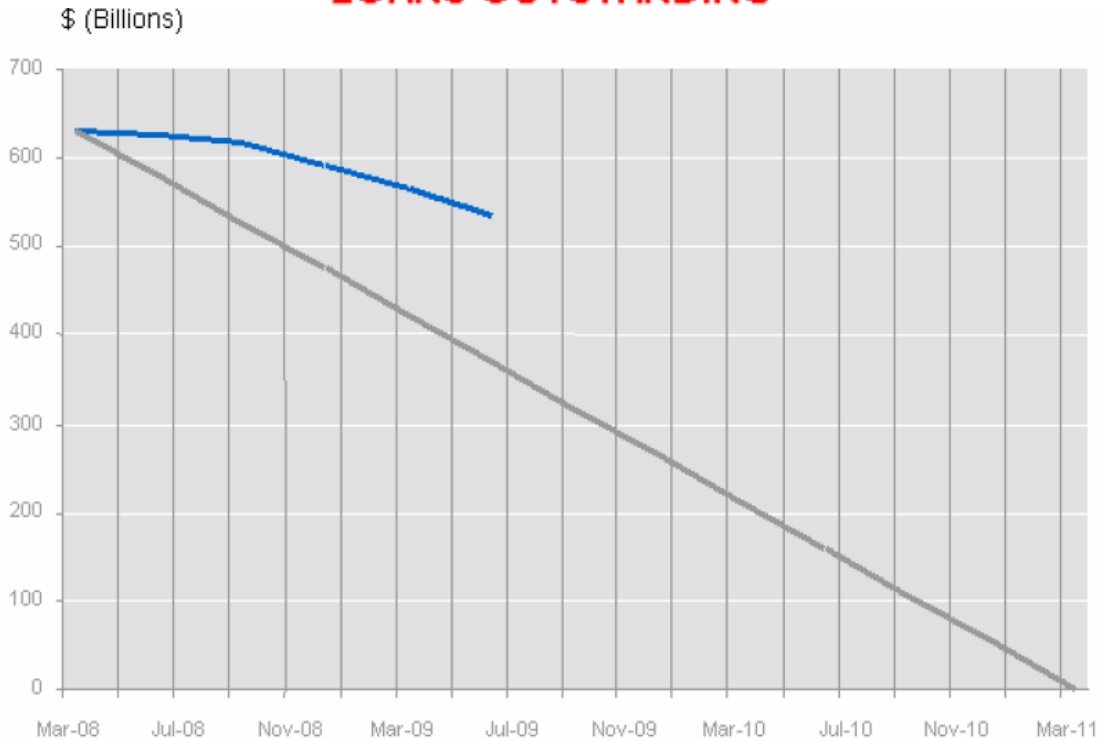


Thus volume in the CMBS market is non-existent.



Problems are not just confined to securitized lending as bank repayment of land and construction loans are slow and delinquencies are on the rise.

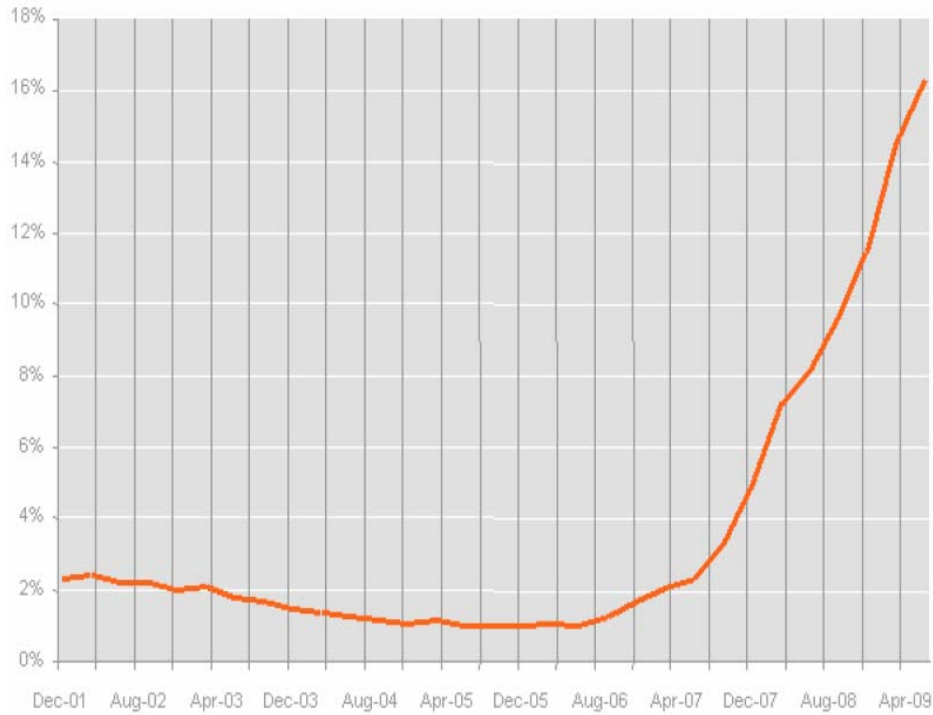
BANK CONSTRUCTION AND LAND DEVELOPMENT LOANS OUTSTANDING



Sources: FDIC; PPR

— FDIC Actual — Projected

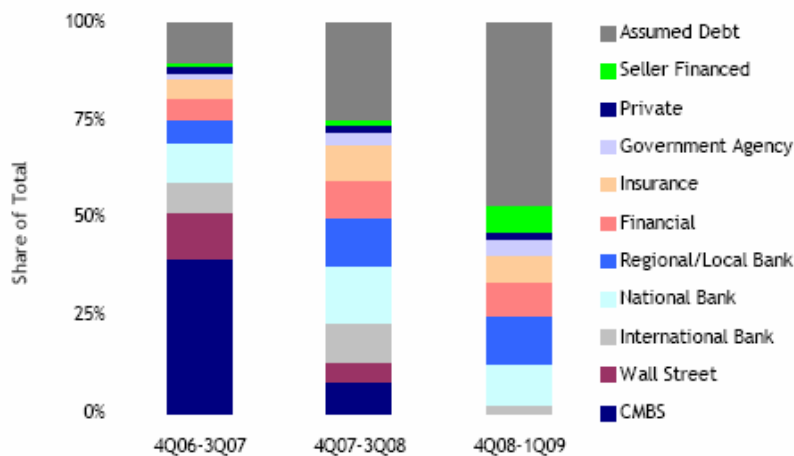
DELINQUENT & NON-PERFORMING CONSTRUCTION AND LAND DEVELOPMENT LOANS



Source: FDIC

Everyone knows transaction volumes continue at extreme lows, so where is the financing coming from when a sale actually occurs? More and more, it is an assumption of debt.

Sources of Acquisition Financing by Dollar Volume



Sources: Marcus & Millichap Research Services, Mortgage Bankers Association

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