

August, 2010



PIMCO's summary of key findings (and I quote) included:

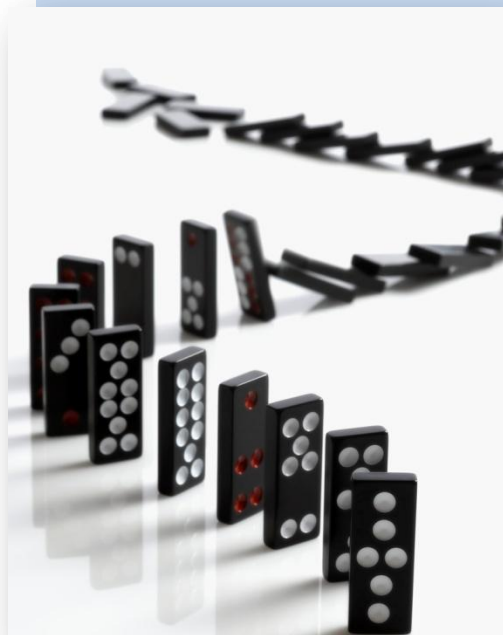
- "Capital is clearly returning to commercial real estate helping to stem the value decline in the sector."
- "Changes in the structure of capital markets will lengthen the deleveraging process and suppress a recovery. The impaired ability to transfer CRE risk out of the banking system relative to previous cycles makes a stable, let alone V-shaped recovery unlikely. Instead many CRE assets likely will not return to 2007 prices until the end of this decade."
- "Macroeconomic headwinds such as limited GDP growth in the U.S., elevated unemployment, potential re-regulation and a secular increase in the savings rate will force the market to re-evaluate the assumptions it has used to price CRE. These trends severely affect the outlook for rents, vacancies and capitalization rates."

Dear Friends, Valued Clients and Property Owners:

PIMCO Global Investments recently produced their "U.S. Commercial Real Estate Project" report. Included in this report is information gathered by PIMCO's Investment Committee who sent their firm's mortgage team to the top 20 U.S. Housing markets "in a boots on the ground effort" to assess the housing market.

I am attaching a full copy of this article for your reading pleasure. For me, some of the highlights contained within the article include:

- The commercial real estate (CRE) market shares most of the sins of its residential cousin – extremely weak loan underwriting, excessive leverage and the absence of risk management from both banks and rating agencies.
- Capital has returned to CRE and high levels of bidding activity in certain sectors have made many observers and participants optimistic.
- Transactions have generally been limited and capital flows have been concentrated in trophy properties or properties where below-market agency financing is available.
- A significant volume of weaker and distressed assets has yet to be liquidated and this foreshadows further pressure on values.



News & Notes