

S&P Sees Spring Thaw for US Commercial Real Estate

The U.S. commercial real estate sector remains weak but is showing modest signs of recovery from the recent recession, according to Standard & Poor's Ratings Services.

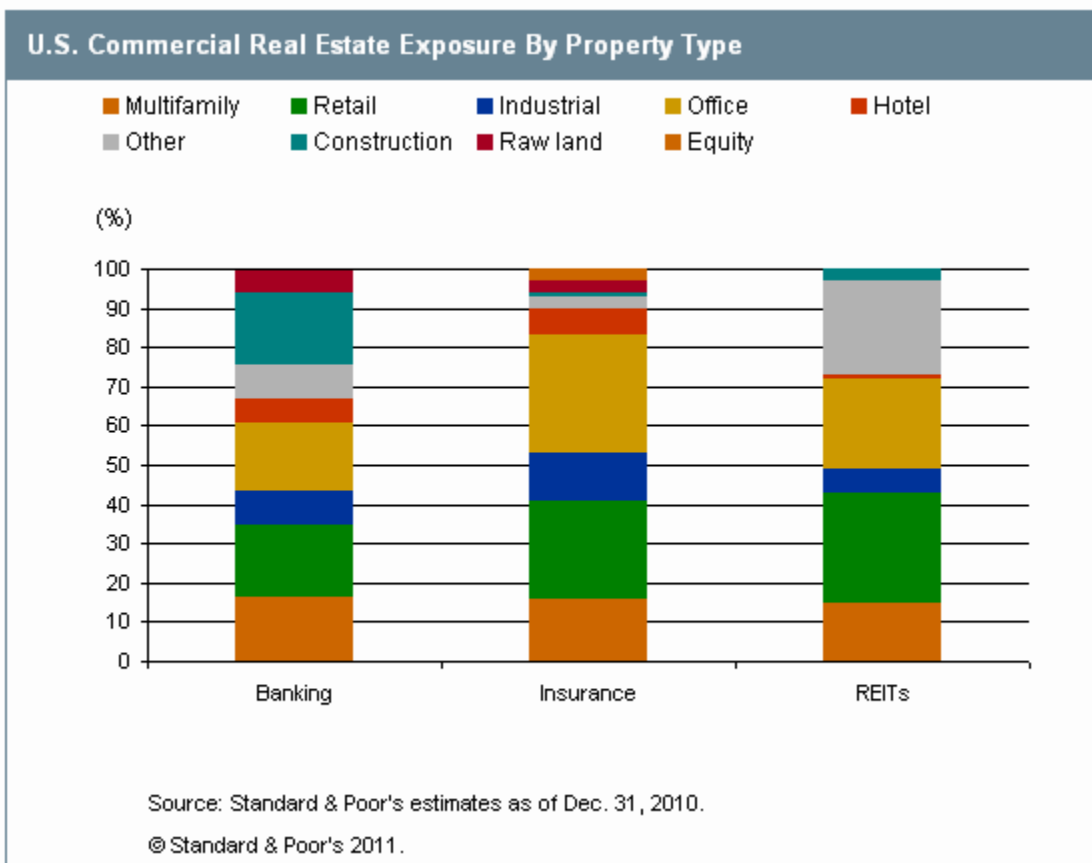


While the U.S. commercial real estate sector is still recovering from setback experienced during the recent recession, improvements in macroeconomic factors could slowly provide the momentum it needs for recovery.

“The high unemployment rate remains the biggest macroeconomic problem for the commercial real estate sector,” said Standard & Poor's credit analyst Matthew Carroll. “Weak demand for labor and the accompanying stress on consumer spending are negative factors for most property types.”

Standard & Poor's expects interest rates to remain favorably low in 2011, resulting in lower borrowing costs and potentially lower cap rates (the discount rates real estate investors use to value cash flows) and higher valuations, before increasing in 2012. Meantime, inflation should remain tame, and we expect that growth in the consumer price index will remain below 3.0% in 2011 and 2012, following the 1.7% increase in 2010.

Overall, Standard & Poor's expects all of the major property types to exhibit signs of stabilization in 2011 and to command rent increases in 2012, compared with the declines in 2010. “These improvements, though perhaps modest, will benefit both debt service coverage and property valuations,” said Carroll.



Despite the recent downturn in the commercial real estate sector, senior unsecured REITs debtholders have faced minimal losses, and we believe that life insurers and banks generally are well positioned to absorb any further commercial real estate-related investment losses.