

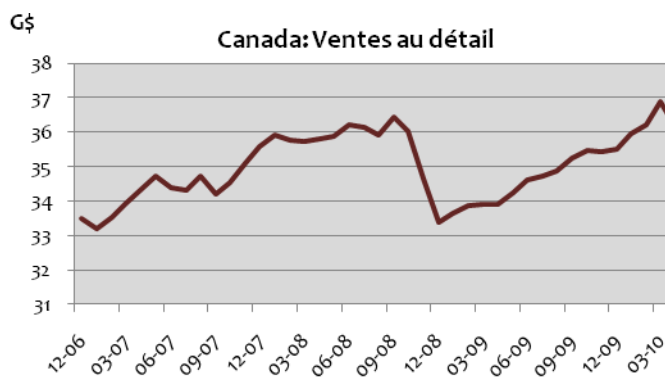
# éc Otéra

Weekly  
Review



## Financial news

In Canada, according to Statistics Canada figures dated June 23, retail sales did a totally unexpected about-face and actually dropped 2.0% in April after four consecutive months of increases (2.2% in March). Practically all of the main indicator sectors (10 out of 11) posted a decrease in sales during the month. Despite this unexpected setback, however, retail sales were up 6.6% year over year. Among the provinces, it was Quebec that experienced the steepest drop in April: 3.9% of sales after five consecutive monthly increases.



Source: Statistiques Canada

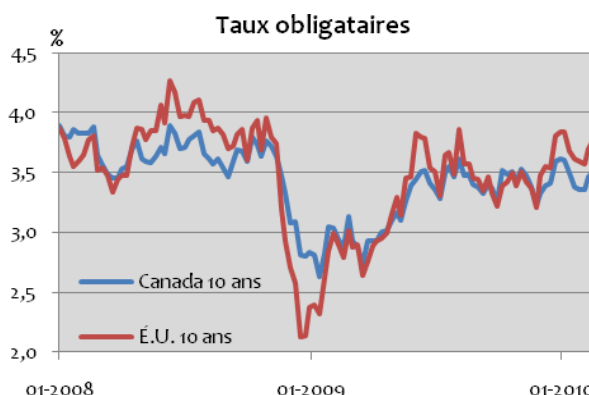
In the U.S., financial statistics were not encouraging last week. New-house sales plunged 32.7% in May, while existing-house sales suffered a similar fate, although only to the tune of 2.2%, in the same period. These decreases in themselves are no big surprise for economists given the fact that the federal income tax credit program for first-time buyers was phased out. Moreover, according to the U.S. Department of Commerce, orders for durable goods slipped 1.1% from April to May. This drop is essentially attributable to the major drop in orders felt in the aviation sector. According to a U.S. Conference Board survey, consumer confidence weakened in June after three consecutive months of growth. The index they use went from 63.3 in May to 52.9 in June, its lowest level since the month of March.

Also in the U.S., the American Federal Reserve, at the latest meeting of the Federal Open Market Committee (FOMC) on June 23rd, surprised no one when it opted for the status quo and decided to keep the target range for its key interest rate at 0% to 0.25%. The Fed remains true to its commitment to support the stability of the financial system and the proper management of markets. In response

to the current crisis in European public finances and a number of disappointing economic statistics (e.g. job market, housing, retail sales, under-utilization of production capacity), the Fed will evidently be keeping its key interest rates exceptionally low for some time to come.

## The bond market

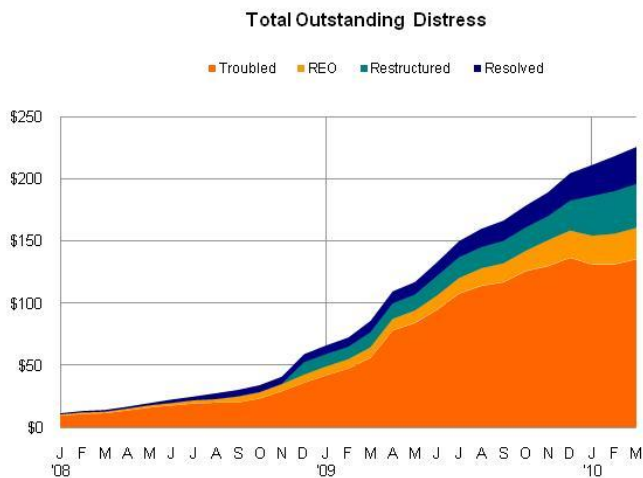
The latest round of discouraging figures about the American economy has combined with fears surrounding the high indebtedness of certain euro-zone countries to push investors into hedge securities. These concerns helped maintain the downward trend of long-term bond rate. The Canadian ten-year bond rate posted a drop of 12 basis points to settle at 3.20%, while its U.S. counterpart dropped 15 basis points to end the week at 3.08%.



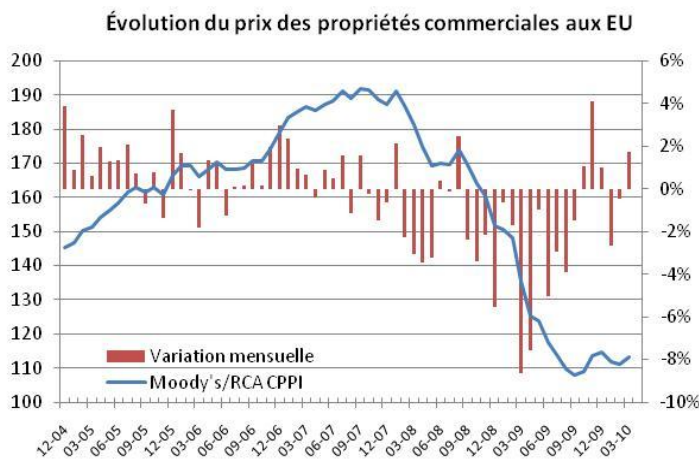
Source: Bloomberg

## The debt market

According to a recent analysis by Real Capital Analytics (RCA), the total value of properties in so-called distress reached US\$185 B in April 2010, which is a 3% increase over March figures. In April, there was close to US\$7.4 B in new properties deemed in default, under seizure or in bankruptcy. However, there was an increase in the volume of troubled assets resolved (US\$1.5 B in April), which attenuated this figure's overall increase. The increase in such resolutions, combined with a greater number of seizures and REO properties, offers some hope that lenders will be increasingly proactive in tackling their growing problems.



The Moody's/REAL commercial property price index (CPPI) recorded an increase of 1.7% in April. The index's progress, although fluctuating deeply, is pointing to price stabilization, but Moody's is cautioning that the transaction volume remains quite low, with only US\$800 M in transactions being factored into the index for April. The price curve has climbed 4.7% since bottoming out in October 2009.

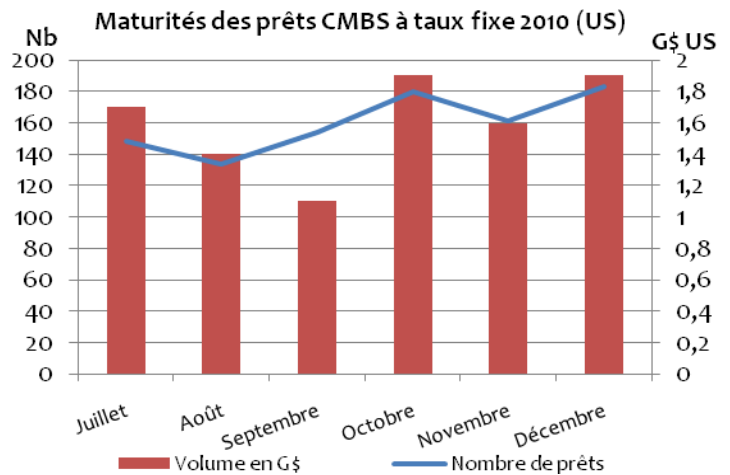


Fitch is changing the way it evaluates interest-only tranches for structured products, including CMBS. The rating agency will now consider ratings for tranches below this IO level in determining its rating. IO tranches associated with several other bonds will automatically be assigned the lowest rating among them. For the sake of consistency with the new guidelines, Fitch will be retiring its ratings for most existing IO tranches. The Fitch approach is more conservative than its recently announced counterpart at S&P, which is generally holding on to credit ratings for existing IO tranches.

By way of a private investment, Bank of America and JP Morgan are apparently poised to market US\$650 M in bonds backed by an A-piece on **One Bryant Park**, a 51-storey office building in New York also known as the Bank of America Tower. The borrower is a joint venture of developer Douglas Durst and BofA (which takes up 76% of the building). Reflecting strong demand, 10-year securities rated AAA by Fitch and Real Point are being offered at S+150 basis points above swaps, which is below the initial pricing of 155 to 160 basis points above. The issue is deemed to be oversubscribed by a factor of

1.5 to 2. The B-piece (also for US\$650 M) was apparently subdivided into four pari passu bonds featuring tax-exempt interest income (Liberty Bonds).

According to Fitch, which rates a fixed-rate CMBS universe valued at US\$539 B, there are 960 loans totalling US\$9.6 B maturing in the next half. As things stand, 103 of these loans have already been relegated to special servicing. Despite the fact that some liquidity has returned to the commercial mortgage market, Fitch is positing that refinancing these loans could be a problem. However, the agency is not expecting any downgrades as a result of the extension risk associated with these loans.



The secondary CMBS market in the U.S. continued rising early last week. However, the downward-trending bond and equity market prompted CMBS spreads to return to the previous week's levels.

Fixed Rate (Conduit)	Avg. Life	Spread (bp)		
		6/23	Week Earlier	52-wk Avg.
AAA	5.0	S+175	S+182	+258
	10.0	S+350	S+373	+480
AA	10.0	S+2,652	S+2,665	+2,981
A	10.0	S+3,187	S+3,205	+3,654
BBB	10.0	T+4,442	T+4,468	+5,256

### ASKING SPREADS OVER TREASURYS

10-year loans with 50-59% LTV

	6/18	Month Earlier
Office	217	237
Retail	213	229
Multi-family	201	217
Industrial	210	229

Source: Trepp

Source: CMA, June 25, 2010