A Disastrous Decade

The first decade of the 21st century had a roaring start and a punishing conclusion.

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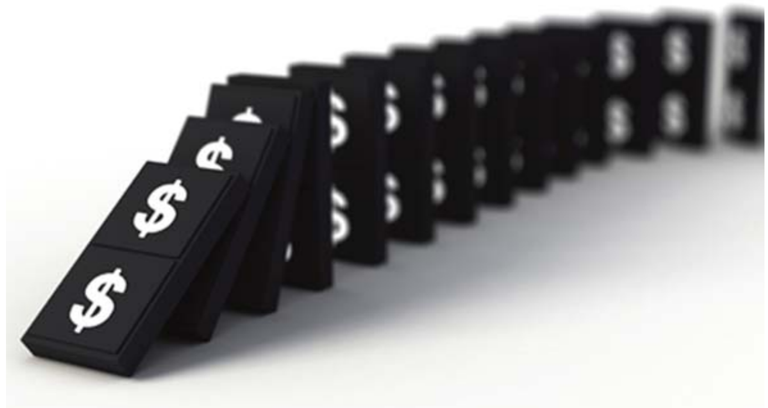
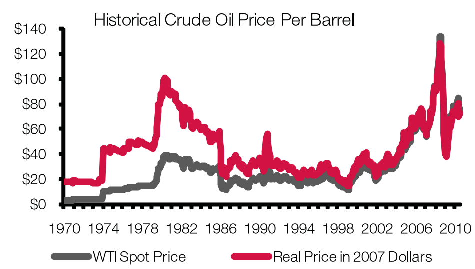
By Dr. Peter Linneman, PhD
Chief Economist, NAI Global
Principal, Linneman Associates



What a difference a decade makes. It was just 10 years ago that:

- panic was rampant about the Y2K bug;
- the Nasdaq closed at 5,048.62, its highest point before the dot-com bust;
- AOL bought Time Warner for $162 billion;
- Vladimir Putin took charge of Russia;
- Bill Gates stepped down as Microsoft's CEO;
- Elian Gonzalez (who?) was on the front page of every newspaper;
- Vermont approved gay unions; and
- the Bush vs. Gore election was too close to call.



In 1999, the New York Yankees won the World Series, the Denver Broncos won the Super Bowl, and Andre Agassi won the U.S. Open. In 2009, the Yankees took the Series again, the Pittsburgh Steelers won the Super Bowl, and Agassi told the world he took crystal meth. Roger Federer took the Open, in case you were wondering. In 1999, Hilary Swank and Kevin Spacey claimed Best Actor awards and "American Beauty" won Best Picture. In 2009, the winners were Sandra Bullock, Jeff Bridges and "The Hurt Locker." In 1999, it cost $0.33 to mail a letter in the U.S., $0.35 to make a phone call from a public telephone booth (anyone remember those?) and $1 for a hot dog on the streets of Manhattan. Ten years later, it costs $0.44 to mail a letter, no one uses public phone booths and a hot dog can be as much as $5 on the streets of Manhattan!

U.S. Decennial Comparisons

Indicator	Jun-70	Jun-80	1970-1980 % Change	Jun-90	1980-1990 % Change	Jun-00	1990-2000 % Change	Jun-10	2000-2010 % Change
Population (thousands)	204,703	226,942	*11%*	249,400	*10%*	281,797	*13%*	309,341	*10%*
Real GDP ($ billions)	$4,283	$5,757	*34%*	$8,065	*40%*	$11,293	*40%*	$13,208	*17%*
NCREIF Total Return Index	*n/a*	151.1	*n/a*	429.4	*184%*	767.9	*79%*	1,532.7	*100%*
Unemployment Rate (%; change in bps)	4.9%	7.6%	*270*	5.5%	*(210)*	4.0%	*(150)*	9.5%	*550*
Employment (thousands)	71,028	90,095	*27%*	109,817	*22%*	131,839	*20%*	130,419	*-1%*
Real Household Wealth ($ billions)	$18,323	$23,273	*27%*	$34,100	*47%*	$54,768	*61%*	53,008	*-3%*
Industrial Production Index	33.4	43.8	*31%*	58.9	*34%*	91.5	*55%*	89.6	*-2%*
S&P 500 Index	73	114	*57%*	358	*213%*	1,455	*306%*	1,031	*-29%*
Core CPI	38.8	82.5	*113%*	129.9	*57%*	172	*33%*	217	*26%*
Real Federal Quarterly Outlays ($ billions)	$277	$389	*41%*	$549	*41%*	$556	*1%*	$919	*65%*
Real Federal Debt Held by Public ($ billions)*	$1,532	$1,799	*17%*	$3,943	*119%*	$4,389	*11%*	$8,203	*87%*

**2009 Fed Debt Held by Public as of March 31, 2010.*

And that's just the fun stuff. Over the past 10 years:

- Real GDP grew by only 17% after growing by 34-40% during the previous three decades;
- Real federal debt held by the public increased by some 95%, or about \$4 trillion;
- Employment stands at about 1.4 million fewer payroll jobs than what existed in 2000; and
- Consumer confidence ended the decade 31% lower than it began.

Where have the good times gone?

In 2000, our federal budget surplus was over \$200 billion under Bill Clinton, and the world was at relative peace. In 2010, Barack Obama led the U.S. to a federal budget deficit in excess of \$1.3 trillion, the U.S. is at war in Afghanistan and still has a strong military presence in Iraq. In between those two, the Bush administration took us through two recessions, two wars and we witnessed the horror of the September 11th attacks. We experienced oil prices of nearly \$150 per barrel, a booming and plunging housing market and an extreme financial crisis.

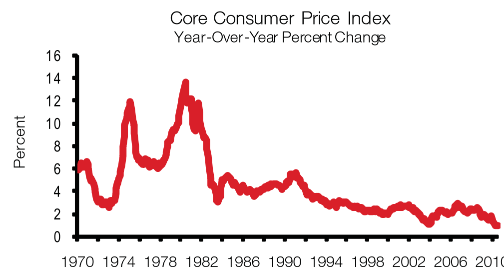
The first decade of this century had a roaring start and a punishing conclusion. A scorecard for the 10 years from mid-2000 through mid-2010 reveals that annual population grew by 0.94% per annum, while real GDP rose at the compounded annual rate of 1.58%, resulting in annual per capita GDP growth of 0.64%. Over the prior three decades through 1999, real GDP grew by 34-40% per decade. In comparison, it only grew by 17% over the last 10 years.

U.S. real GDP stood at \$4.3 trillion in June 1970, \$5.8 trillion in June 1980, over \$8 trillion in June 1990 and \$11.3 trillion at mid-year 2000. Compared to \$13.2 trillion in 2010, this represents an increase of 208% over 40 years, 129% over 30 years, 64% over 20 years and 17% over 10 years. Core CPI has increased nearly 460% since 1970, 163% since 1980, 67% since 1990 and just 26% since 2000.

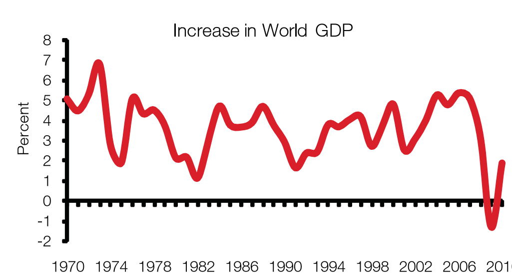
Both employment and real household wealth have consistently grown over each decade between 1970 and 2000, but both lost ground between 2000 and 2010. Total employment growth was 27% in the 1970s, 22% in the 1980s and 20% in the 1990s, but suffered a net loss of more than 1% in the first decade of the 21st century. Similarly, real household wealth increased by 27% in the 1970s, 47% in the booming 1980s and 61% in the 1990s, but lost 3% over the last 10 years. Unemployment, which has fluctuated widely over the past 40 years, almost doubled from 4.9% in 1970 to 9.5% in 2010.

Likewise, industrial production and the S&P 500 Index both lost significant ground over the last 10 years. The S&P 500 index increased by more than 1,300% since 1970, over 800% since 1980 and 188% since 1990, but fell by 29% over the last decade. Industrial production increased by 31% in the 1970s, 34% in the 1980s and 55% in the 1990s, before declining by 2% over the last decade. On an aggregate basis, industrial production increased by 168% since 1970, by 104% since 1980 and by 52% since 1990.

The International Monetary Fund reports that the average annual growth rate for world real GDP was 3.8% between 1970 and 2008. That rate turned negative (-1.3%) in 2009 and is estimated to be 1.9% in 2010. The world economy experienced higher than average annual real GDP growth, at 4.9%, from 2003-2007. Excluding 2009, world GDP averaged real annual growth of 4.1% during the previous 10 years. The highest annual world real GDP growth occurred in 1973 (6.8%), while the lowest previous growth was 1.13% during the last "super-recession" in 1982.



Homebuilders failed to differentiate speculative investors buying homes to flip from traditional resident buyers… major homebuilders saw the surging home prices and booming sales velocity as a change in the fundamental housing demand.



GDP Growth

	1997-2007 Avg. Annual Growth %	Greatest % Decline vs. 4Q07	4Q07-2Q10 % Change*	Current Status
China	9.5	no decline	28.4	n/a
India	7.0	no decline	10.1	n/a
Poland	4.4	no decline	7.4	n/a
Korea	4.7	-3.2	6.3	Improving
Israel	3.9	no decline	6.0	n/a
Chile	3.9	-0.5	5.7	Improving
Australia	3.7	no decline	5.5	n/a
Turkey	4.3	-11.7	1.7	Improving
Switzerland	2.2	-2.1	1.2	Improving
New Zealand	3.3	-2.7	0.2	Improving
Canada	3.3	-3.4	-0.1	Improving
Belgium	2.3	-3.0	-0.5	Improving
Slovak Republic	4.9	-6.3	-0.8	Improving
Mexico	3.2	-8.0	-1.0	Improving
Austria	2.6	-3.5	-1.2	Improving
United States	3.0	-4.1	-1.3	Improving
Germany	1.6	-5.3	-1.4	Improving
Czech Republic	3.5	-3.8	-1.5	Improving
France	2.4	-3.4	-1.6	Improving
Portugal	2.2	-3.7	-1.7	Improving
Netherlands	2.7	-4.5	-1.9	Improving
Luxembourg	5.3	-6.9	-1.9	Improving
Norway	2.1	-2.8	-1.9	Improving
Russian Federation	5.8	-7.4	-2.5	Improving
Euro area (16 countries)	2.3	-4.7	-2.8	Improving
European Union (27 countries)	2.5	-4.8	-2.9	Improving
Sweden	3.5	-7.5	-3.1	Improving
Denmark	2.0	-7.4	-3.9	Improving
Japan	1.1	-8.5	-4.1	Improving
Spain	3.8	-4.4	-4.1	Improving
United Kingdom	2.9	-6.0	-4.2	Improving
Greece	4.1	-4.3	-4.3	Worst
Italy	1.5	-6.4	-5.2	Improving
Slovenia	4.5	-7.3	-5.9	Improving
Finland	3.8	-9.3	-6.2	Improving
Hungary	4.1	-6.9	-6.3	Improving
Iceland	4.7	-11.8	-11.8	Worst
Ireland	6.9	-14.3	-13.4	Improving
Estonia	7.5	-20.3	-16.8	Improving

Source: OECD, Trading Economics, Linneman Associates
** Thru 4Q2009 for Japan and China*

Which countries fell the hardest during the recent recession? Did any escape unscathed? Which are improving, and which have yet to find bottom? A comparison of 10-year average real GDP growth rates (1997-2007) to those nations that experienced the greatest percentage declines in GDP reveals that Estonia and Ireland fell the furthest from economic grace. Estonia was averaging 7.5% annual GDP growth, but lost more than 20% of GDP from its peak. Ireland was averaging about 6.9% annual real growth during the same period; but its real GDP fell by 14.3% since the fourth quarter of 2007. The good news is that both countries' situations improved slightly by mid-2010, putting them in the "improving" category today.

Other nations that suffered large declines in real GDP since the end of 2007 include: Iceland (-11.8%); Turkey (-11.7%); Finland (-9.3%); Japan (-8.5%); and Mexico (-8%). Of those, only Iceland has yet to turn the corner as of the second quarter of 2010. Countries that appear to be mounting strong recoveries include Turkey, Korea, Mexico, Chile, the Slovak Republic and Luxembourg.

The only two countries still registering real GDP low points in the second quarter of 2010 were Iceland and Greece. Nations that registered either only slowing declines or no negative real GDP growth are China, India, Poland, Australia and Israel. Of the markets that exhibited negative GDP growth versus the end of 2007, the economies of South Korea, Chile, Turkey, Switzerland and New Zealand have surpassed their previous high points.

Over the last 10 years, unemployment rates have increased in eight of 10 major countries. Only Germany and Italy experienced declining unemployment rates – 280 basis points and 240 basis points, respectively – between 2000 and 2010. In contrast, Spain's unemployment rate spiked by 870 basis points, to 20.5%, over the last 10 years. Similarly, the U.S. unemployment rate grew by 570 basis points during that period, but by as much as 620 basis points at its weakest point in 2009.

For India and China, unemployment statistics are difficult to compare to those of other nations. The real issue in India is not unemployment, but under-employment. It is not uncommon in India to have a college graduate who is technically employed, but is doing manual labor only on a part-time basis. Thus, while the statistics can provide snapshots at given points in time, they most likely omit much of the story.

Employment increased for all 10 major countries except Japan, whose employment declined by 3.1% over the last 10 years. Data for China, India and France were not available. Canada (16.3%) and Spain (19.7%) both saw large jumps in employment, with Spain's employment index peaking in 2007 at 107.9, an increase of 32% compared to 2000. As of mid-2010, U.S. employment grew by 1.8% over the last decade. But it had peaked in 2007, 7% over the 2000 base.

Examining industrial production, all countries except Germany, China, India and the U.S. posted declines over the last decade. Italy (-15.6%), the United Kingdom (-15%), Spain (-14.6%), and Canada (-10.5%) fared the worst. Industrial production in the U.S. declined by 2.7% between 1999 and 2009, but edged up in 2010, while India's increased by an incredible 109.3% over the last 10 years.

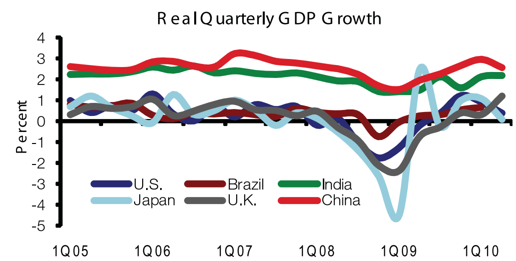
Between 2000 and 2010, budget deficits as a percent of GDP increased in eight of the 10 countries examined. Complete data for China and India were not available for the analysis. The U.K. and Canada both moved from a budget surplus to a budget deficit, while none of the surveyed countries moved in the opposite direction.

Unemployment Rate

	2000	2010	Change (bps)
Canada	6.7	8.2	150
China*	3.1	9.6	650
France	9.6	10.1	50
Germany	10.3	7.5	-280
India*	7.3	10.7	338
Italy	10.6	8.2	-240
Japan	4.7	5.1	40
Spain	11.8	20.5	870
United Kingdom**	5.8	7.8	200
United States	3.9	9.6	570

Source: OECD, Trading Economics, The Economist,Linneman Assoc.

** 2009*



Source: tradingeconomics (China, Brazil, India); OECD (others)

Employment Index

	2000	2010	% Change
Canada	91.6	106.5	16.3
China	n/a	n/a	n/a
France	n/a	n/a	n/a
Germany	98.5	105.3	6.9
India	n/a	n/a	n/a
Italy	93.3	102.0	9.3
Japan	102.0	98.8	-3.1
Spain	81.4	97.4	19.7
United Kingdom	95.3	100.7	5.7
United States	96.8	98.5	1.8

In 2000, real U.S. GDP stood at approximately $11.3 trillion, versus $13.2 trillion in 2010. Although this is a 20% increase over the decade, before the Bush administration took charge real GDP was growing at a rate slightly over 4% year-over-year from 1996 to 2000. The growth rate dropped to 1% in 2001, was 0.44% in 2008, turned negative for 2009, but regained ground in 2010.

Federal spending in 1996 was $1.56 trillion, versus revenue of $1.45 trillion. By year-end 2000, federal spending had increased by 14.7% to $1.79 trillion, while the tech bubble artificially boosted tax revenues to $2.03 trillion. In 2004, revenues had declined to $1.88 trillion as a result of the collapse of the tech bubble, even as spending increased by 28% to $2.29 trillion. Four years later, a staggering 30% increase in federal spending had occurred under a self-proclaimed fiscal conservative President, while a 34% increase in federal revenues had taken place. As a result, by year-end 2008, $2.98 trillion were spent against $2.52 trillion in revenues. Absent any hint of fiscal responsibility, during the eight Bush years federal spending increased by 66.5% (6.6% per annum), while tax revenues increased by 24% (2.7% per annum), GDP increased by 16% (1.9% per annum) and CPI grew by 21% (2.4% annually).

Still, the Bush administration's disgraceful fiscal record is child's play compared to the first year under President Obama. In 2009, federal spending rose by $540 billion to $3.52 trillion, or an 18% increase in a single year, while federal revenues fell by some $420 billion. The good news is that through the first eight months of 2010, total federal spending was down by 3.2%, compared to the same period in 2009, while comparable total revenues increased by 6.8%. This is despite the fact that even White House estimates indicate that the deficit as a percent of GDP was expected to surpass 10% in 2010. The long-term wild card is that by 2020 the Medicare/Social Security burden becomes cash-flow negative.

Real federal debt held by the public (not including GSE debt) has steadily increased since 2000 when it stood at $4.2 trillion (2008 $). By the end of the Bush administration, it had risen by 52% ($2.2 trillion) to $6.4 trillion. By the first quarter of 2010 (latest available), it had risen by another $1.8 trillion. In the 10 years since the end of the Clinton administration, real federal debt held by the public will have increased by some 95% (6.9% per annum), or about $4 trillion (not including GSE debt). And no end is in sight. All of this must be viewed against the backdrop of a roughly $14.5 trillion economy.

The NAREIT Total Equity index rose 180%, from 2,689 at mid-year 2000 to 7,542 at mid-2010. Meanwhile, the S&P 500 fell from 1,454.6 in 2000 to 1,030.7, a 29% drop over the decade. Core CPI increased 22% over the decade, while industrial production fell 2%. Due to the most recent recession, real household wealth decreased 3.2% over the last 10 years, falling from $54.8 trillion in 2000 to $53 trillion in 2010. Sadly, 2010 employment stands at about 1.4 million fewer payroll jobs than what existed in 2000. The 2008-2009 recession cost the U.S. 8.5 million jobs, or 4.5 years of normal job growth. Consumer confidence ended the decade 31% lower than it began, though at its highest since 2008.

How did it get so bad?

From 2002 through mid-2005, the Fed artificially created negative real short-term interest rates, which discouraged investments in short-term and safe assets, while skewing demand towards long-term and risky assets in the search for yield. At the same time, historically low rates encouraged borrowers to finance short, creating a serious mismatch of asset and liability durations. The result was an artificial increase in the demand for, and price of, long-term risky assets, and the disproportionate use of cheap short-term debt. This massive Fed error caused one of the greatest financial crises in U.S. history, as anyone

Industrial Production Index

	2000	2010	% Change
Canada	99.3	88.9	-10.5
France	99.6	92.2	-7.4
Germany	92.9	105.3	13.3
Italy	104.7	88.4	-15.6
Japan	99.0	95.2	-3.8
Spain	97.3	83.1	-14.6
United Kingdom	104.8	89.1	-15.0
United States	97.2	97.7	0.5
China*	112.2	116.5	3.8
India	74.3	155.5	109.3

Source: OECD, Linneman Associates
**China: Latest = May 2010; Others July 2010*

Wall Street could not create mortgage securities fast enough to satisfy the profit lust, so they created synthetic securities that tracked chosen tranches of existing securities. These synthetic products could be created cheaper and faster than actual mortgage securities, required almost no capital to create, and generated instant fees.

Government Deficit as % of GDP

	2000	2010	Change (bps)
United Kingdom	0.6	-10.1	-1,070
Spain	-0.7	-9.6	-890
United States	-0.6	-9.0	-840
France	-1.6	-7.9	-630
Canada	0.7	-4.6	-530
Italy	-3.1	-5.0	-190
Japan	-6.3	-7.6	-130
Germany	-2.8	-3.7	-90
China	n/a	-2.2	n/a
India	n/a	6.4	n/a

Source: OECD, The Economist, Linneman Associates who used short-term liabilities to purchase long-term assets was crushed when this artificial interest rate regime ended.

The current Fed is repeating this mistake via near-zero nominal short-term interest rates and negative real rates. This has led to a rebound in the pricing of long-term corporate bonds, emerging market debt and equities beyond what would have occurred in a neutral interest rate environment.

Today's low short-term rates have artificially increased the price of long-term risky assets, and when short rates normalize this artificial demand will dissipate. This fundamental cause (along with deposit insurance) of the financial crisis is being totally ignored. The Fed excessively manipulates short-term interest rates in the belief that it knows better than markets how money should be priced. While there is certainly a role for monetary policy, it should be used sparingly rather than constantly.

Terrible outcomes generally arise from the confluence of a series of poor decisions that fail to take underlying fundamentals into consideration. A clear example is the much documented collapse of the U.S. housing market, ultimately driving the U.S. economy into a super-recession. This collapse would have been minor but for the confluence of several seemingly unrelated mistakes.

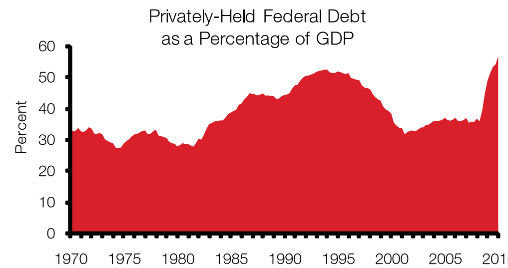
The first cause of the housing boom of the 2000s was the fact that the U.S. Federal Reserve mistakenly kept the Fed funds rate far too low for far too long. In addition, the Fed misread a drop in goods prices due to cyclical excess supply as a deflationary threat, keeping the real Fed funds rate negative for four years. When the Fed finally and rapidly increased the Fed funds rate to 5.5% in early 2005, the game was over.

The fundamentals of U.S. housing starts are very simple: In an average year, approximately 1.8 million housing units are required to replace destroyed housing units and to satisfy new housing needs. The history of U.S. housing, unfortunately, has been one of sustained booms, with housing production well in excess of 1.8 million units, followed by sustained busts.

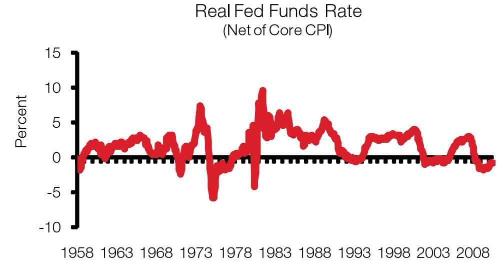
One of the unintended side effects of the Fed's low interest rate policy was that many U.S. households saw flipping homes as a "can't lose" investment proposition. These households took on non-conforming (generally referred to as subprime) ARMs to purchase speculative housing units to flip. This was an easy carry trade for many thousands of Americans, as they invested long and risky while borrowing at low short rates.

Homebuilders failed to differentiate speculative investors buying homes to flip (rather than live in) from traditional resident buyers. As a result, major home-builders saw the surging home prices and booming sales velocity as a change in the fundamental housing demand. Their production levels increased by as much as 100% above local norms in the hottest markets. The profits that homebuilders derived from these high-priced, high-velocity sales lured them into believing that it was a sustainable demand, causing them to replace their inventory with very expensive and frequently poorly located land, as well as to sign building contracts at production costs far above norm. Housing production was far in excess of sustainable norms, accompanied by ever rising unsold inventory levels.

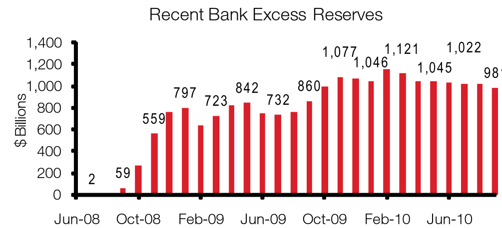
As the reality of high excess inventory levels set in, home prices began to fall, coincidentally at the same time that the Fed raised the Fed funds rate. This caused an enormous squeeze on flippers, who saw their chance to flip profitably evaporate due to falling home prices and rising mortgage rates.



The final result was not only a collapse in housing prices, household balance sheets and housing production, but also the destruction of U.S. commercial and investment banks, which failed to avoid mismatching their assets and liabilities in the search for fees and unsustainable spread. This all was created by a mistaken Fed policy.



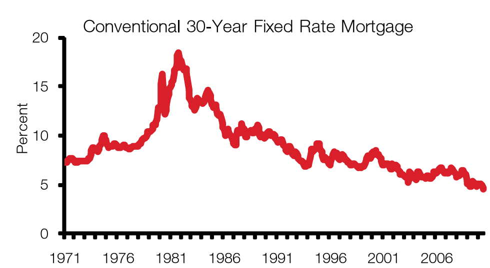
Meanwhile the mortgage markets heated up in response to investors seeking yield in the face of the Fed's artificially low interest rates. This search for yield created the incentive for so-called private label residential mortgage issuers to utilize cheap short-term debt to issue long-term residential mortgages, repackage them as mortgage-backed securities and quickly flip them to investors hungry for yield. Wall Street being Wall Street, such high profitability rapidly created an abundance of packagers anxious to realize these outsized profits. This was achieved by slowly, yet continually, reducing basic mortgage underwriting standards so as to be able to have a sufficient supply of mortgage product to issue new securities yielding fees and spread to the packagers. This increased the availability of subprime mortgages, which had been a small niche of the mortgage market. These so-called liar loans, often taken out by flippers, funded the purchase of some 800,000 housing units.



At the same time, Freddie and Fannie were experiencing enormous political headwinds in the wake of their accounting scandals. These political pressures ultimately led Freddie and Fannie to expand into both subprime and extremely low down payment mortgages to satisfy Congress. The result was that any subprime loan that did not meet private label standards was quickly vacuumed up by Freddie and Fannie to satisfy enormous Congressional pressures. Thus, the credit ratings of subprime loans increased (due to the prevalence of flipper borrowers) even as subprime mortgages grew to nearly one-third of all new mortgages (versus a typical level of about 8% of all mortgages). Buyers looked to the rating agencies to assure that these products were "safe," despite the fact that they had no experience buying such products. Their ignorance was matched at the rating agencies. In particular, the explosion of subprime product driven by liar loans had never been experienced. Therefore underwriting such loans from the history of subprime loans to people with incomes higher than they reported seriously misrepresented the true risk of these new securities. The rating agencies were attracted by the fees, fees and more fees available by quickly rating the flood of new securities.

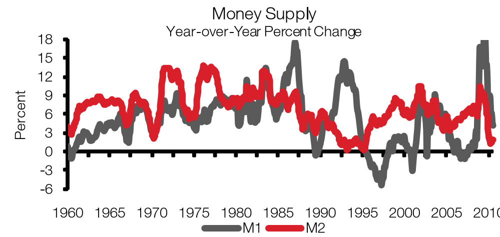
Even crazier was the fact that Wall Street could not create mortgage securities fast enough to satisfy the profit lust, so they created synthetic securities that tracked chosen tranches of existing securities. These synthetic products could be created cheaper and faster than actual mortgage securities, required almost no capital to create and generated instant fees. And these synthetic products provided an after-market for the market maker to generate more fees. This created a surge of further betting on long-term risk in the search for yield, in the face of the Fed's artificially low short-term rates, all disproportionately financed by the use of artificially cheap short-term debt.

When the Fed finally raised its interest rate, it all was fated to end. Housing production plunged in order to burn through the excessive inventories held by both homebuilders and flippers (whose properties were taken over by their lenders, and liquidated as empty units in foreclosure). Home prices fell, particularly in the hottest of markets, putting many borrowers under water. These losses placed financial institutions at dire risk and eroded the balance sheets of many homeowners. Further, as home prices and home production fell, the mortgage security market screeched to a halt. As the game of musical chairs ended, those holding mortgages in inventory suffered huge losses, as their long-term mortgage assets were depressed and highly illiquid in the face of plunging long-term asset prices compounded by rising default rates, while at the same time their short-term borrowing costs were skyrocketing, both because of the higher Fed funds rate and their increased credit risk.



The primary holders of mortgages were the packagers who were living off fees and spreads, namely the large commercial and investment banks. These supposedly "safe and sound" institutions had become super-high-leveraged holders of illiquid long-term mortgages and mortgage products financed with cheap short-term debt. And even though regulatory budgets ballooned during this time, no regulators had uttered the faintest warning sound.

The final result was not only a collapse in housing prices, household balance sheets, and housing production, but also the destruction of U.S. commercial and investment banks, which almost without exception failed to avoid mismatching their assets and liabilities in the search for fees and unsustainable spread. This all was created by a mistaken Fed policy.



Another danger associated with the Fed's artificially low short-term interest rate policy is that the expansion of the money supply will eventually lead to inflation.

We are in a period of excess capacity, and as a result have low inflation in spite of abnormal levels of global liquidity. But as excess capacity is eliminated by demand growth and the obsolescence of some capacity, prices will begin to rise at higher rates. This is already occurring around the world, and inflation hawks (like us) worry that if these levels of inflation are registered in a world of weak demand and excess supply, what inflation will we see when the excess supply is eliminated?

Capitalism will always struggle in the absence of clear, transparent and predictable economic rules, as without such rules the game of capitalism is too risky to play. Since mid-September 2008, the U.S. government obliterated the rules. As government officials panicked, the rules of the economic game were both repudiated and made up on the fly. As investors sensed that these officials were panicked, exhausted, confused and politically motivated, it undermined economic confidence causing the complete halt of economic activity. A modest recovery has occurred since the recession ended around July 2009 but only a weak recovery will continue as long as dollars are directed from the private to the public sector, and until the "rules of the game" stabilize.

The first decade of the 21st century has not been the best for the U.S. — economically or politically. For the next 10 years, questions will continue about raging budget deficits, inflation, oil prices, the role of capitalism, and our position on the world stage.

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4 Independence Way
Suite 400
Princeton NJ 08540
tel +1 609 945 4000
fax +1 609 945 4001
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