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Memorandum

February 3, 2009

To: Richard LeFrak

Subject: Updates and additional information for Excess House Inventories Special Report

Immigration

Without question, America is attractive to foreigners and has been since colonial times. Many today want to come here because of our political and economic freedom, our capitalistic system that allows people to not only succeed but to enjoy the fruits of their labor and brains, our high level of health care, the American lifestyle and high living standards, etc.

The controversies over immigration have, of course, centered on the huge inflow of legal but mainly illegal Hispanics who lack skills and education but are willing to work for low wages in jobs many natives reject. The recession is eliminating the jobs in construction, food service and other industries that attracted those people. Tighter law enforcement is also having effects. Interestingly, the Obama Administration recently delayed until May 21 the E-verify system, an Internet-based system that enables employers to compare the names and Social Security numbers of new employees with a federal database. An additional rule requiring Form I-9 to verify the identity and authorization to work in the U.S. of newly-hired people will be delayed until April 3. The Obama Administration postponed the Bush era regulations to “permit the new Administration an adequate opportunity to review the rule.”

In any event, few people are entering the U.S. The Census Bureau estimates net immigration in the year ending July 1, 2008 of 888,825, down from 1,037,657 in the year ended July 1, 2007 and 1,204,167 the year before that. These declines reflect the departure of many Hispanics who lost their jobs and those who didn't bother to come to the U.S. due to shrinking employment. Reflecting income declines, Mexicans working in the U.S. sent home 3.6% less money in 2008 than in 2007. Unlike earlier years when most were agricultural laborers, only 5% of Mexican immigrants now work on U.S. farms while 38% are in

construction and manufacturing and 57% in services, according to the Bank of Mexico. The Pew Hispanic Center says that in the four quarters ending last October, 239,000 Hispanics lost their U.S. jobs, with almost 100,000 of those in construction.

Many Hispanics, both legal and illegal, bought houses back in the boom years, and Hispanic homeownership grew by 47% from 4.1 million in 2000 to 6.1 million in 2007, much faster than the 8% overall rise in homeownership. In 2006 alone, mortgages to Hispanics jumped by 29% and the subprime component leaped by 169% compared to a 122% jump for blacks and 110% for whites. Many of the subprime loans to Hispanics were not documented, probably were not understood by the borrowers and are suffering huge delinquencies and defaults as house prices fall and Hispanic incomes disappear.

In U.S. counties where Hispanics account for more than 25% of the population, lenders have foreclosed on 0.67% of homes since Jan. 1, 2006 compared with 0.46% in all counties. A significant part of excess house inventories results from low-income Hispanics in unstable jobs who barely could meet monthly payments in lush times. The answer to surplus houses clearly does not lie in attracting more of these immigrants, but rather those with the education, skills, income and wealth to buy American houses even in difficult times.

EB-5 Visa

The EB-5 visa program is akin to Canada's program that allows immigrants to achieve permanent resident status after five years if they bring in C\$400,000. And, the EB-5 program can be cited as a precedent for giving green cards to foreigners who buy American houses. Each year, 10,000 EB-5 visas are available for foreigners who invest \$1 million in a new enterprise that creates at least 10 full-time jobs and increases exports, improves regional productivity, job creation or increases capital. Only \$500,000 is needed to be invested in a new business in an economically depressed area, and 5,000 of the 10,000 visas are set aside for those areas.

An existing business can be expanded or restructured, but regardless, the immigrant must be actively involved, not just as an investor. The visa includes the entrepreneur's family. If he continuously maintains the business for two years and has a clean record, he and his family can then get permanent resident status.

Wealthy Foreigners

The number of foreigners with substantial assets is huge, and only a tiny fraction of them would need to buy American houses in return for permanent residence to remove a major part of excess inventories. Note that due to uncertainty before the British handover of Hong Kong to China, many residents there

secured resident status in Singapore and elsewhere. There's plenty of uncertainty today in many part of the world to interest wealthy foreigners in U.S. permanent residence for themselves and their families.

Obviously, the global bear market in stocks, the real estate decline and financial turmoil have trimmed the ranks of the well-to-do. Still, Merrill Lynch estimates that in 2007, there were 10.1 million individuals in the world with at least \$1 million in financial assets, excluding collectibles, consumables, consumer durables and primary residences (Chart 1). The addition of physical assets would no doubt expand that number considerably. Of that total, 7.1 million were outside the U.S. with 415,000 in China, 123,000 in India, 136,000 in Russia and 143,000 in Brazil while 3.0 million were Americans. In 2007, the financial assets of those outside North America totaled \$29.0 trillion. Those with over \$30 million in financial assets totaled 103.3 thousand, with 62.1 thousand outside North America. (Chart 1).

The Pool of Skilled And Educated Immigrants

Many foreigners with skills and education are in this country or were earlier while attending U.S. colleges and graduate schools or on temporary work assignments. Lots of them desire permanent resident status and would like to buy homes but are reluctant to do so until their immigration condition is settled.

The Ewing Marion Kauffman Foundation estimates that as of Sept. 30, 2006, 500,040 residents of the U.S. and 59,915 living abroad were waiting for EB-1, EB-2 and EB-3 employment-based visas. With their families, the total is 1,181,505 (Chart 2), and since only about 120,120 of these visas are issued a year, including to family members, that is almost a 10-year backlog.

EB-1 visas are for foreign nationals with extraordinary abilities in the sciences, arts, education, business or athletics as well as outstanding professors or researchers and managers and executives who would be transferred to the U.S. EB-2 visas are given to foreigners with exceptional abilities in the sciences, arts or business, advanced degree professionals and physicians who will practice medicine in underserved areas of the U.S. EB-3 visas are for foreign nationals with bachelor's degrees who don't meet EB-1 or EB-2 qualifications, skilled workers with at least two years of training and experience and unskilled workers (obviously a small category).

The authors of this report believe that a number of people have given up waiting for those visas or don't want to put up with the hassle and are leaving the country. This "brain drain" is unfortunate since many of these foreigners are highly productive. In 2006, foreign nationals residing in the U.S. were named as inventors or co-inventors on 25.6% of the 42,019 international patent applications filed from this country, up from 7.6% in 1998 (Chart 3). Studies of the authorship of academic papers show the same trend.

U.S. educational institutions are considered the best in the world by many and are magnets for foreign

students, especially at the graduate level. Many of them are included to settle and work in this country after completing their studies, if they can obtain permanent resident status.

The Council of Graduate Schools survey revealed that in the fall of 2007, 241,095 non-U.S. citizens were enrolled in graduate programs (Chart 4). Technological progress and the productivity it generates depends on people educated in biological sciences, engineering and physical sciences, but only 16% of U.S. citizen graduate enrollment was in these three disciplines (Chart 5). In contrast, 55% of total non-U.S. citizen enrollment was in those fields. Conversely, 53% of graduate enrollment by Americans was in education, business and health sciences while those three fields accounted for only 24% of foreign graduate students.

Furthermore, the ranks of foreign graduate students are growing. In 1997 to 2007, they grew at a 5% annual rate, compared to 2% for Americans. In those years, enrollment of U.S. citizens in physical sciences and engineering fields rose 1% annually on average but 5% for foreign students in engineering and 4% in physical sciences. The greatest annual growth for U.S. citizens, 4%, was in health sciences, but even there, international graduate student enrollment grew even faster, 6% (Chart 6).

Other data from the National Science Foundation also shows the large number of foreign students enrolled in science, engineering and health graduate programs in U.S. schools (Chart 7). In six years, 2001-2006, first-time, full-time graduate students with temporary visas cumulated to 196,194 in those three fields, with 109,020 in science, 77,096 in engineering and 10,078 in health fields.

At the doctorate level, the number of non-U.S. citizens receiving degrees, especially those with temporary visas, is expanding rapidly (Chart 8). These are people who, having been educated here largely at U.S. expense, should be encouraged to stay here in productive professional capacities. Notice that in 2007, those on temporary visas who received doctorates were more numerous than U.S. citizens in physical sciences and engineering.

Over the last 20 years, the number of U.S. citizens receiving doctorates has remained relatively steady while virtually all of the growth has come from those with temporary visas, according to the National Science Foundation. Their percentage of the total has climbed from 11% in 1977 to 34% in 2007 (Chart 9). This data also shows the dominance of foreigners among recipients of doctorates in the physical sciences and engineering in 2007 (Chart 10). Some 84% of the total doctorates for temporary U.S. residents were in the sciences and engineering. Furthermore, 45% of those temporary visa holders planned to work in industry or be self-employed vs. 17% of U.S. citizens.

The value of U.S. education is also shown by an academic study that compared the earnings of U.S.-born whites, U.S.-born Asian-Americans, U.S.-educated Asian immigrants and foreign-educated Asian immi-

grants. For the first three groups, earnings were essentially the same, but foreign-educated Asian immigrants earned 16% less. So, American education, not nativity or race, is what makes the difference.

Not only are U.S.-educated foreigners prospects for permanent residence but also those with advanced degrees who are educated abroad. And there is a huge pool of those people (Chart 11). According to the OECD, between 1998 and 2006, 1.12 million doctorates were awarded outside the U.S. in other OECD countries compared to 428,828 in the U.S. Some 66,067 were granted in Canada, New Zealand and Australia; 182,634 in Japan and South Korea; and 710,530 in Western Europe.

7. Consumer spending is vulnerable.
 - Has driven this expansion (Charts 25-26)
 - Has relied on MEW (Charts 27-28)
 - Is linked to housing (Charts 29-31)
 - High energy prices also hurt (Chart 32)

8. Consumer spending and sentiment are linked to unemployment (Chart 33).
 - Housing and construction employment lead overall employment (Charts 34-35)
 - Payroll employment growth is slipping and overstated (Charts 36-38)

9. Rising interest rates don't reflect fundamentals but hurt housing and consumers (Charts 39-41).
 - Shift to normal yield curve won't save the business expansion (Chart 42)

10. Likely stock weakness will also hurt (Chart 43).

11. Retail sales are already slipping (Charts 44-45). Could be beginning of debt repayment and saving spree (Charts 46-47).

CHART 1

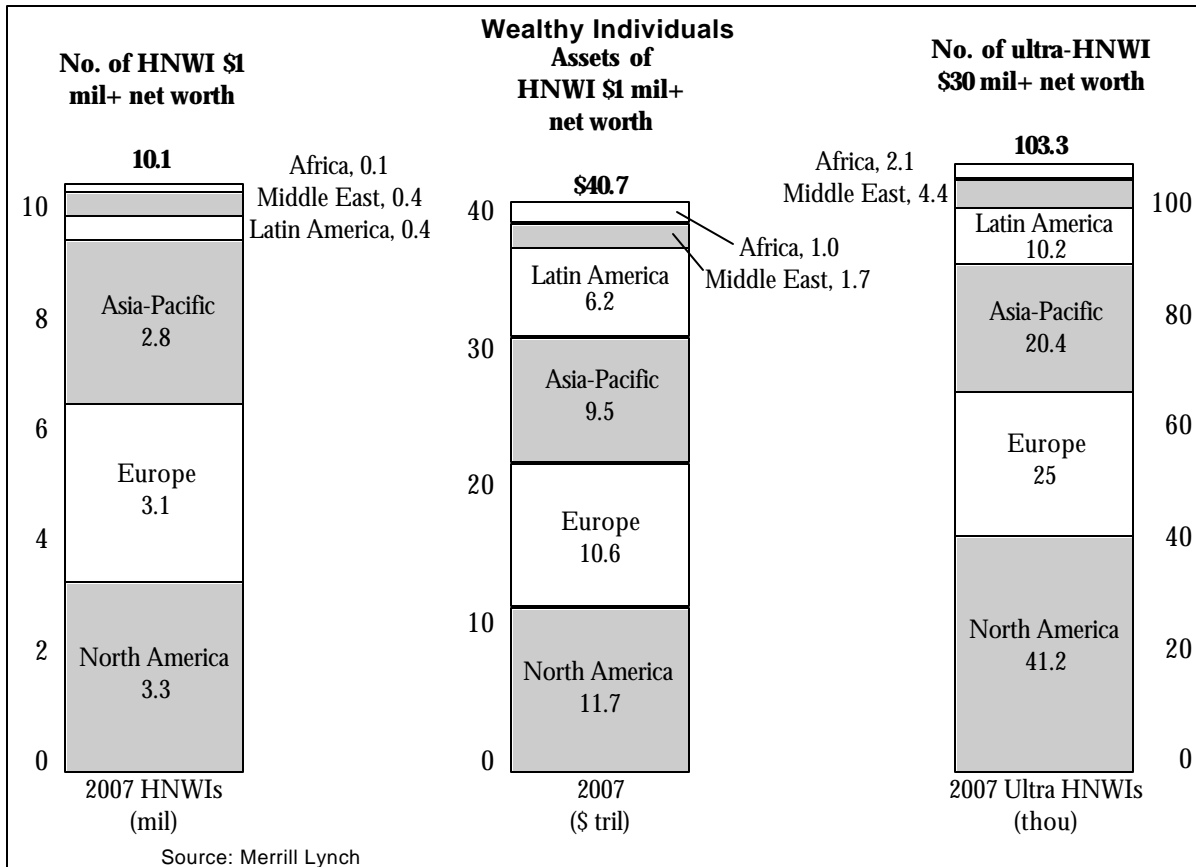


CHART 2

**Estimated Employment-Based Pre-Legal Permanent Resident Population
Sept. 2006**

	Resident in the U.S.	Resident Abroad	Worldwide
Principals	500,040	59,945	559,955
Family members	555,044	66,506	621,550
Total	1,055,084	126,421	1,181,505

Source: Intellectual Property, the Immigration Backlog, and a Reverse Brain-Drain: America's New Immigrant Entrepreneurs, Part III

CHART 3

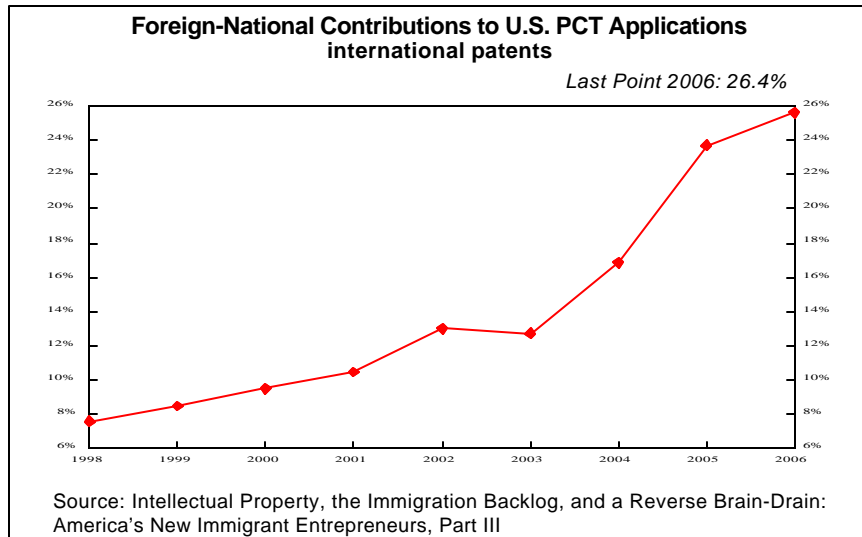


CHART 4

Fall 2007 Graduate Enrollment by Institution Type and Citizenship

<u>Institution Type</u>	<u>Total</u>	<u>US Citizens and Permanent Residents</u>		<u>Non-US Citizen Temporary Residents</u>	
Total	1,698,455	1,276,210	84%	241,095	16%
Public	1,027,654	792,381	84%	156,547	16%
Private	670,791	483,829	85%	84,548	15%
Doctoral/Research Extensive	754,804	531,505	76%	166,153	24%
Public	547,769	398,677	77%	116,305	23%
Private	207,035	132,828	73%	49,848	27%
Doctoral/Research Intensive	291,620	224,496	87%	33,071	13%
Public	168,052	131,960	87%	20,466	13%
Private	123,568	92,536	88%	12,605	12%
Master's & Specialized	652,021	520,209	93%	41,871	7%
Public	311,833	261,744	93%	19,776	7%
Private	340,188	258,465	92%	22,095	8%

Source: CGS/GRE Survey of Graduate Enrollment and Degree

CHART 5

Fall 2007 Graduate Enrollment by Field and Citizenship

<u>Major Field</u>	<u>Total</u>	<u>US Citizens and</u>		<u>Non-US Citizen</u>	
		<u>Permanent Residents</u>		<u>Temporary Residents</u>	
Total	1,698,445	1,276,210	84%	241,095	16%
Biological Sciences	71,183	48,386	73%	17,733	27%
Business	188,823	137,720	82%	29,340	18%
Education	321,433	279,796	97%	9,886	3%
Engineering	112,559	52,529	50%	52,233	50%
Health Sciences	123,615	102,369	92%	9,291	8%
Humanities & Arts	103,769	78,802	86%	13,323	14%
Physical Sciences	103,942	55,623	58%	40,378	42%
Public Administration and Services	60,062	50,713	95%	2,567	5%
Social Sciences	128,201	98,061	85%	16,740	15%
Other Fields	97,533	77,384	89%	9,802	11%

Source: CGS/GRE Survey of Graduate Enrollment and Degree

CHART 6

Trends in Graduate Enrollment by Citizenship Status and Major Field of Study: 1997-2007

<u>Major Field</u>	<u>US Citizens and</u>	
	<u>Permanent Residents</u>	<u>Non-US Citizen</u>
	<u>Avg. Annual % Change</u>	<u>Avg. Annual % Change</u>
	<u>1997-2007</u>	<u>1997-2007</u>
Biological Sciences	1%	3%
Business	0%	2%
Education	1%	6%
Engineering	1%	5%
Health Sciences	4%	6%
Humanities & Arts	0%	2%
Physical Sciences	1%	4%
Public Administration and Services	1%	7%
Social Sciences	1%	3%
Other Fields	2%	2%
Total Enrollment	2%	5%

Source: CGS/GRE Survey of Graduate Enrollment and Degree

CHART 7

**First-time, Full-Time Graduate Students with Temporary Visas in
Science, Engineering and Health Fields: 2001-2006**

<u>Field</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2001-06 Total</u>
All surveyed fields	35,716	33,838	31,237	29,375	30,688	35,340	196,194
Science	19,566	18,344	17,516	16,875	17,413	19,306	109,020
Engineering	14,638	13,858	12,166	10,837	11,468	14,129	77,096
Health Fields	1,512	1,636	1,555	1,663	1,807	1,905	10,078

Source: CGS/GRE Survey of Graduate Enrollment and Degree

CHART 8

**First-time, Full-Time Graduate Students with Temporary Visas in
Science, Engineering and Health Fields: 2001-2006**

<u>Field/citizenship</u>	<u>1977</u>	<u>1982</u>	<u>1987</u>	<u>1992</u>	<u>1997</u>	<u>2002</u>	<u>2007</u>
All fields							
All doctorates	31,716	31,108	32,365	38,886	42,539	40,024	48,079
U.S. citizen	26,194	24,457	22,997	26,023	28,154	26,050	27,568
Non-U.S. permanent resident	1,365	1,226	1,571	1,974	2,932	1,662	1,832
Non-U.S. temporary visa holder	3,489	4,254	5,660	9,980	9,192	9,743	15,115
Life sciences							
All doctorates	4,977	5,762	5,783	7,172	8,421	8,478	10,630
U.S. citizen	3,952	4,667	4,265	4,750	5,226	5,422	6,523
Non-U.S. permanent resident	244	183	260	354	758	421	420
Non-U.S. temporary visa holder	679	763	939	1,956	2,058	2,120	3,028
Physical sciences							
All doctorates	4,325	4,238	5,000	6,444	6,581	5,604	8,037
U.S. citizen	3,307	3,079	3,072	3,500	3,562	2,930	3,488
Non-U.S. permanent resident	265	201	253	351	620	292	338
Non-U.S. temporary visa holder	680	839	1,374	2,448	2,067	2,119	3,662
Social sciences							
All doctorates	6,260	6,026	5,988	6,481	7,285	6,826	7,191
U.S. citizen	5,325	4,937	4,513	4,813	5,342	5,015	4,912
Non-U.S. permanent resident	200	207	255	301	370	249	243
Non-U.S. temporary visa holder	585	590	724	1,150	1,078	1,106	1,472
Engineering							
All doctorates	2,643	2,646	3,712	5,438	6,115	5,081	7,745
U.S. citizen	1,477	1,173	1,559	2,111	2,740	1,895	2,242
Non-U.S. permanent resident	326	296	355	410	593	273	290
Non-U.S. temporary visa holder	780	1,044	1,539	2,749	2,555	2,649	4,579
Education							
All doctorates	7,455	7,251	6,453	6,677	6,577	6,503	6,429
U.S. citizen	6,815	6,295	5,496	5,854	5,583	5,302	5,199
Non-U.S. permanent resident	108	145	169	164	165	113	136
Non-U.S. temporary visa holder	388	576	430	559	411	479	602
Humanities							
All doctorates	4,372	3,370	3,299	4,176	5,190	5,221	5,109
U.S. citizen	3,932	2,912	2,629	3,333	4,083	4,069	3,674
Non-U.S. permanent resident	147	127	165	232	296	209	243
Non-U.S. temporary visa holder	183	182	259	511	537	669	795
Other fields							
All doctorates	1,684	1,815	2,130	2,498	2,370	2,311	2,938
U.S. citizen	1,386	1,394	1,463	1,662	1,618	1,417	1,530
Non-U.S. permanent resident	75	67	114	162	130	105	162
Non-U.S. temporary visa holder	194	260	395	607	486	601	977

Source: NSF/NIH/USED/NEH/USDA/NASA, 2007 Survey of Earned Doctorates

CHART 9

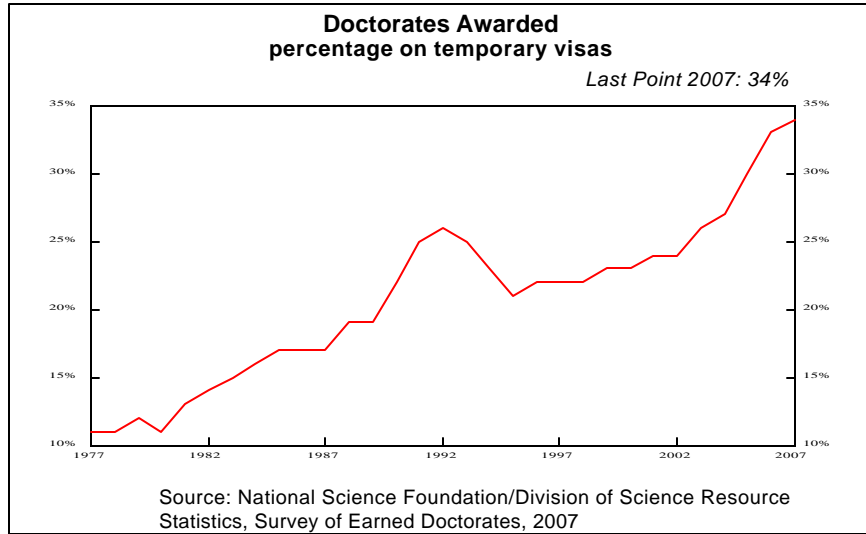


CHART 10

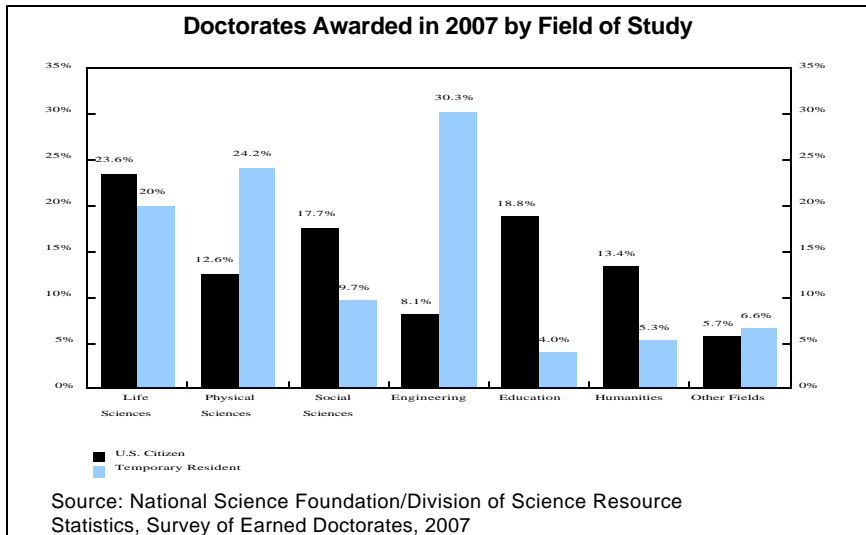


CHART 11

Country	Graduates of Advanced Research Programs (PhD equivalents)									1998-2006
	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Australia	3,271	3,514	3,687	3,802	3,910	4,315	4,763	4,886	5,276	37,424
Austria	1,901	1,843	1,790	1,871	2,125	2,197	2,443	2,228	2,158	18,556
Belgium	na	na	1,147	1,317	1,413	1,432	1,479	1,601	1,718	10,107
Canada	3,887	3,976	3,978	na	na	na	3,709	4,116	4,200	na
Czech Republic	752	827	895	1,066	1,327	1,546	1,732	1,908	2,023	12,076
Denmark	na	467	913	900	732	859	788	955	910	6,524
Finland	1,708	1,725	1,891	1,797	1,797	1,751	1,863	1,957	1,898	16,387
France	10,218	10,173	9,903	10,404	10,404	8,420	8,420	9,578	9,818	87,338
Germany	24,890	24,545	25,780	24,796	23,838	23,043	23,138	25,952	24,946	220,928
Greece	na	na	na	na	na	na	1,295	1,248	na	na
Hungary	1,205	1,229	717	793	983	1,067	893	1,069	1,012	8,968
Iceland	0	1	2	3	5	6	10	14	15	56
Ireland	449	475	501	572	520	668	683	810	979	5,657
Italy	3,463	3,463	3,557	4,044	3,977	4,456	6,351	8,466	9,604	47,381
Japan	9,860	10,974	12,192	13,179	13,642	14,512	15,160	15,286	15,979	120,784
Korea	4,999	5,586	6,143	6,208	6,690	7,172	7,946	8,449	8,657	61,850
Mexico	20,847	929	1,036	1,496	1,801	1,230	2,325	2,432	2,800	34,896
Netherlands	2,490	2,483	na	2,533	2,556	2,584	2,679	2,879	2,993	21,197
New Zealand	407	476	464	487	510	529	623	643	638	4,777
Norway	700	696	658	758	740	714	756	838	882	6,752
Poland	48,908	na	na	4,400	4,400	5,450	5,460	5,722	5,917	na
Portugal	na	na	1,586	na	na	3,723	3,963	4,150	5,342	na
Slovak Republic	na	415	446	532	734	2,126	854	1,022	1,218	na
Spain	5,931	6,307	6,007	6,453	6,905	7,479	8,168	6,902	7,159	61,311
Sweden	2,725	2,916	3,049	3,388	3,517	3,558	3,834	2,778	3,781	29,546
Switzerland	2,826	2,860	2,733	2,745	2,800	2,742	2,952	3,303	3,381	26,342
Turkey	2,364	2,615	2,124	1,985	2,472	2,815	2,680	2,838	2,594	22,487
U.K.	10,993	11,339	11,568	14,147	14,232	14,935	15,257	15,778	16,466	124,716
U.S.	45,876	46,010	44,808	44,904	44,160	45,994	48,378	52,631	56,067	428,828

Source: Organization for Economic Cooperation and Development