US Economy showing signs of stabilization- concerned about job growth-most property fundamentals continue to weaken, “cracks in the pavement.”

Real estate capital markets showing significant signs of life. especially at the core end of the spectrum.

Barbell investment market exists

Liquidity flowing back into the CRE debt market. Interest rates are at levels we never expected to see. Mortgage Lenders and CMBS open for business.

Loan Maturities - $1.6 Trillion debt due through 2013

Credit extensions the norm, but magnitude of distressed deals stimulating pipelines., though resolutions =Additions
Total U.S. Institutional Commercial Real Estate Universe - $4.4 Trillion

Fixed income Markets - $3.24 Trillion (74%)
Lender Composition

Equity Markets - $1.1 Trillion (26%)
Investor Composition
U.S Distressed Commercial Real Estate Volume
March 2009-October 2010
MANY BANKS ARE OVEREXPOSED TO COMMERCIAL REAL ESTATE CRE & CONSTRUCTION LOANS OUTSTANDING AS A % OF BANK CAPITAL WHY THE FDIC WILL BE BUSY FOR QUITE SOME TIME!
Loan Maturities Will Be A Problem!

Banks  Insurance Co's  CMBS Total

Best Case Originations

$118b Shortfall  $137b Shortfall  $178b Shortfall
U.S. Sales Volume
January – December > $25 Million

2009 was 7% of 2007
2009 was 33% of 2008
2009 was 51% of 2002

Likely 2010?
Likely 2011?
Barbell Investment Market

Limited Capital

- Trophy
- Trauma

### Trophy
- Class A Asset
- 90% + Leased/Predictable Cash Flow
- Core or “Core-esque” Market
- Creditworthy rent roll
- Limited Near Tern Roll

### Trauma
- Class A/B Asset
- Less that 50% Leased
- Price PSF Play
- Significant Leasing Exposure
- Bank/Special Servicer Owned!!!
<table>
<thead>
<tr>
<th>Early 90’s</th>
<th>Today</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>• RTC/FDIC closed banks - sold liabilities and assets separately</td>
<td>• FDIC focused on loss sharing/whole institutional transactions</td>
<td>• The focus on structured transactions allows FDIC to manage capital requirements</td>
</tr>
<tr>
<td>• Primary focus was outright sale of commercial assets</td>
<td>• Commercial Real Estate assets likely to be sold in JV format</td>
<td>• May not swamp the market with assets</td>
</tr>
<tr>
<td>• Manageable size institutions</td>
<td>• Challenges with large institutions</td>
<td></td>
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<td>Early 90’s</td>
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<td>• Banks had to sell assets to raise new equity</td>
<td>• Banks passed stress test to raise new equity</td>
<td>• Banks will extend and hold assets that can pay 4% and fund capex reserves vs. sell</td>
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<td>• Fed Funds: 4.10% 5-year: 6.22%</td>
<td>• Fed Funds: 0.15% 5-year: 2.75%</td>
<td>• Banks’ blended cost of capital is &lt;2%- not sellers at 15% unlevered YTM’s</td>
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<td>• Bad assets limited to Commercial Real Estate</td>
<td>• Consumer, Corporate, Residential, and Commercial Problems</td>
<td>• Banks will be more constrained on new loans</td>
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**Banks – Early 90’s vs. Today**

- Banks had to sell assets to raise new equity
- Fed Funds: 4.10% 5-year: 6.22%
- Bad assets limited to Commercial Real Estate

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- Fed Funds: 0.15% 5-year: 2.75%
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- Banks’ blended cost of capital is <2%- not sellers at 15% unlevered YTM’s
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## Transparency – Early 90’s vs. Today

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<tr>
<td>• No CoStar, real Point, Trepp, etc.</td>
<td>• Immediate notice of any loan in special servicing</td>
<td>• Potential faster reset of pricing expectations</td>
</tr>
<tr>
<td>• No public data on defaulted loans</td>
<td>• Rating Agency downgrades</td>
<td>• Less chance of a Japanese lost decade</td>
</tr>
<tr>
<td>• Less leasing data</td>
<td>• Real-time market states and pricing stats</td>
<td></td>
</tr>
<tr>
<td>• Securitization markets actually developed as a result</td>
<td>• Public Market pricing via REIT’s</td>
<td></td>
</tr>
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</table>
## Public Market Capital – Early 90’s vs. Today

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<td>• No REIT Market</td>
<td>• Active Equity REIT market</td>
<td>• May be able to fill the capital void with public money faster than we expect</td>
</tr>
<tr>
<td>• No CMBS Market</td>
<td>• CMBS available at a price</td>
<td></td>
</tr>
<tr>
<td>• No transparency</td>
<td>• Emerging mortgage REIT market</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• TALF Financing</td>
<td>• Retail investors short-term memory</td>
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What Does Moving On Look Like In a Slow Growth Environment?

• **Back to the Future Acquisitions** – Buying Core

• **Acquiring Distress** – REO, Recap Borrowers, Loans, DPO’s

• **Buying Loan Pools** – FDIC & Banks – Challenged Assets

• **Adjusting Return Expectations** – Can’t have a dime for a nickel, or a 10% risk with a 18% yield.

• **Favorable Risk Adjusted Returns**

  “It’s Getting Better!”