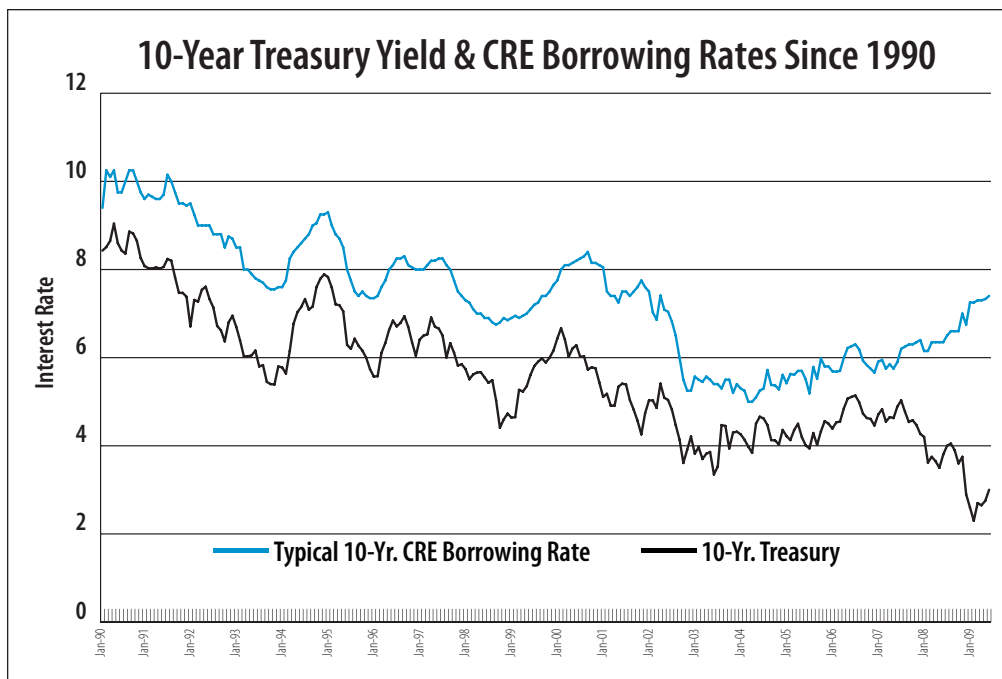


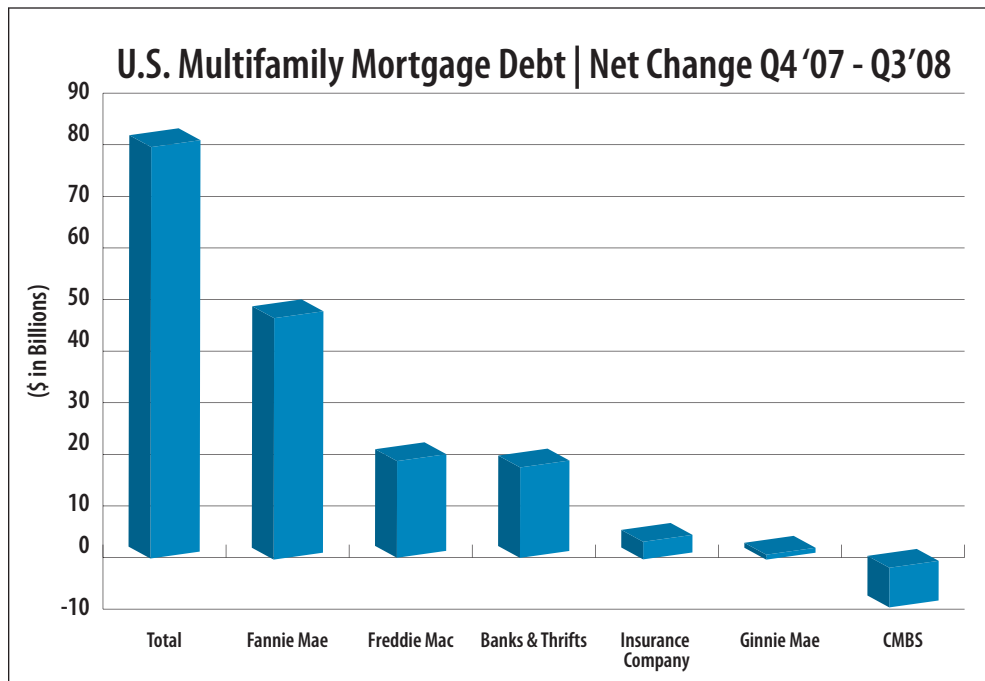
## Grandbridge Real Estate Capital Capital Markets Update | 5.04.09

The global economy continues to churn amidst mixed financial and economic reports. The March unemployment rate reached 8.5 percent, a 25-year high as manufacturing, construction, retail and financial sectors continue to shed jobs. Home values in most markets continue to slump and foreclosure sales activity remains high. But, there is also a glimmer of hope on the horizon as recent bank earnings surpassed forecasts; in fact, financials have regained nearly 30 percent of their values since reaching lows in early March. Economists have a guarded optimism that the recession is moderating and efforts in Washington are beginning to produce results. Recent economic data also indicate that consumer spending strengthened during the first quarter of 2009 compared to the dismal second half of 2008. While there is a sense of optimism, caution continues to be the main sentiment of investors as they wait for the next round of economic headlines.

With little motivation for investors to buy or owners to sell, commercial real estate transactions are few. During the fourth quarter of 2008, only \$17 billion of major apartment, industrial, office and retail properties changed hands — an 80 percent drop from the fourth quarter of 2007, according to the Mortgage Bankers Association. Many commercial real estate investors remain on the sidelines due to the uncertainty in the marketplace or their inability to commit funds. Capital conditions today are such that traditional first mortgage debt is unable to satisfy the requirements of developers and owners and the need for structured transactions, preferred equity and mezzanine financing is more important than ever. In today's marketplace it is imperative to have access to a variety of debt and equity sources. Grandbridge Real Estate Capital brings a vast number of relationships and industry expertise to the increasingly fragmented commercial debt and equity market. During the first quarter of 2009, Grandbridge closed loans with more than 40 different capital sources with deals ranging from \$450,000 to \$40,000,000. Despite the challenges in commercial real estate, interest rates on commercial mortgages continue to be historically attractive for non-multifamily assets. The graph below displays how current borrowing rates compare with historical rates over the past 20 years.



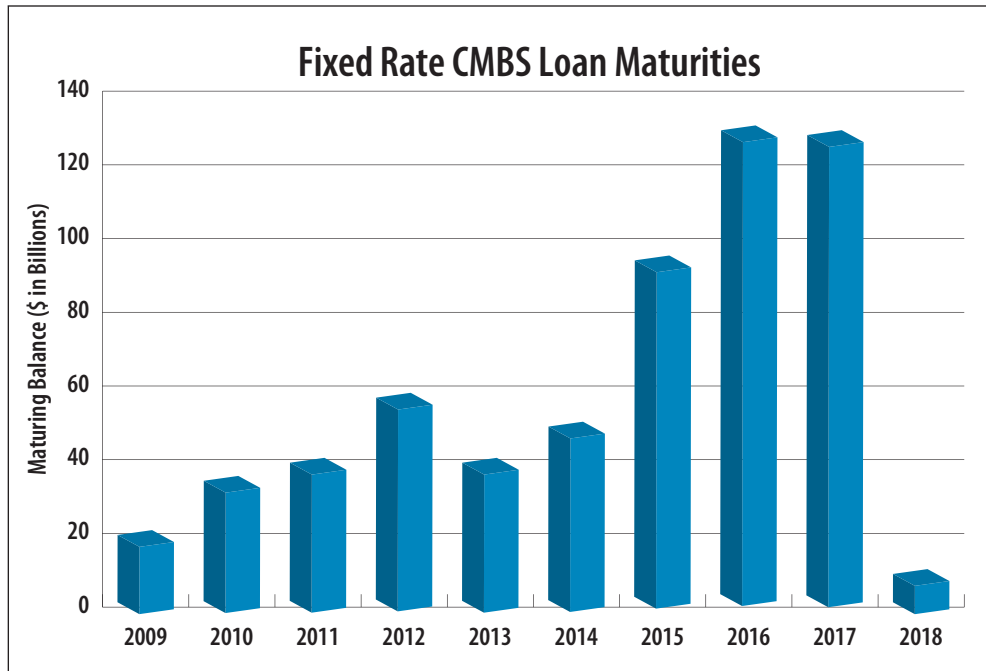
Fannie Mae and Freddie Mac, along with HUD FHA lending programs, continue to provide liquidity and extremely attractive rates for multifamily owners. Indeed, for the 12 months through the third quarter 2008, these Government-Sponsored Enterprises (GSE) invested \$68 billion in multifamily loans, accounting for 82 percent of market share. Borrowers are able to attain financing of up to 80 percent of asset value with recent rates below 6 percent for 10-year loans. The Agencies are dedicated to keeping the housing markets stable and while they have tightened their underwriting over the past quarter, they continue to provide the best execution when compared to banks and insurance companies. During 2008, Fannie Mae funded \$35.5 billion in multifamily housing. As a Fannie Mae Delegated Underwriting and Servicing (DUS®) lender, Grandbridge originated more than \$1.4 billion and was Fannie Mae's seventh largest DUS lender in 2008. Grandbridge recently closed a \$97 million, 10-property portfolio loan with Fannie Mae in 45 days. Grandbridge is also a Freddie Mac Program Plus® Seller/Servicer. Freddie Mac recently introduced the Capital Markets Execution (CME) which provides borrowers with a more competitive and alternative execution to a Freddie Mac portfolio loan. With an experienced and knowledgeable in-house underwriting team, Grandbridge provides the most direct and efficient Agency execution in the marketplace.



Another area of increased activity is the acquisition of distressed or attractively priced performing commercial real estate debt. Well-capitalized investors are negotiating with banks and other institutions to purchase whole mortgage notes anywhere from 50 cents to 80 cents of par value. Investors see this as an opportunity to receive a healthy yield or as a strategy to own an asset, while the note holders need to liquidate these holdings to strengthen their balance sheets and reduce their real estate exposure. Grandbridge is able to provide expertise and lending relationships for these types of transactions. Specifically, some insurance companies are able to finance up to 50 percent of a note purchase and other capital sources can provide a higher loan-to-purchase price. Grandbridge recently facilitated financing for a portfolio of 37 separate mortgage notes with underlying real estate in 14 states. The borrower received \$26 million or approximately 50 percent loan-to-cost. The transaction closed in 45 days. Distressed debt transactions will continue to intensify as funds that have raised capital begin to transact and capital sources continue to feel economic pressure.

Insurance companies continue to fund lower leveraged and conservatively underwritten loans. Generally, interest rates range from 6.75 percent to 8 percent depending on the asset type, location and strength of sponsor. Insurance companies are limiting leverage levels to 60 to 65 percent of value, and sometimes less for some markets and property types. But not all insurance companies are reacting to the current real estate market in the same manner. Some capital sources which are typically active remain on the sidelines and are not currently looking at loan opportunities, while others have increased their real estate allocations from previous years and look at the current market as an opportunity to make solid conservative loans to strong and experienced operators. Grandbridge closed loans with 45 different insurance companies in 2008 and has access to more than 100 different capital sources, allowing us to find the best executions during this unique time in the marketplace.

One significant change taking place in commercial debt markets is the Federal Reserve’s effort to increase liquidity by making nonrecourse loans available to investors who purchase AAA rated commercial mortgage-backed securities (CMBS) from banks and other institutions through the Term Asset-Backed Securities Loan Facility (TALF). Already, a number of large investment firms have raised billions of dollars and are positioning to buy CMBS. The hope is that by moving these assets from the balance sheets of strapped capital sources, the same entities will be closer to making new loans, albeit with tighter underwriting. The \$700 billion market for existing CMBS has already rallied in the past two weeks and yields on the highest quality CMBS bonds have fallen to 12 percent from 14 percent in the last month, according to Trepp LLC.



While the recent changes in TALF are meant to remove some undervalued assets from banks’ balance sheets in the near term, a large degree of concern remains over the amount of CMBS loans that will mature during the next five to 10 years. Capital sources’ current appetite for new transactions remains limited, but because of the relatively low number of maturing loans in 2009, Agencies, insurance companies, banks and other institutions have been able to provide some refinancing options. The hope is the credit market and lending capacity will rebound by 2015 when a large number of fixed rate, and in many instances non-amortizing, loans are scheduled to mature.

Despite continued volatility in the marketplace, Grandbridge is well-positioned to provide access to the most competitive debt and equity available for all commercial real estate transactions. Grandbridge’s broad investor base is one of the strongest in the industry and includes leading insurance companies, pension fund advisors, and commercial banks as well as proprietary products. The company is a Fannie Mae DUS® (Delegated Underwriting and Servicing) lender, a Freddie Mac Program Plus® Seller/Servicer and an active participant in multifamily products insured by the Federal Housing Administration (FHA).