

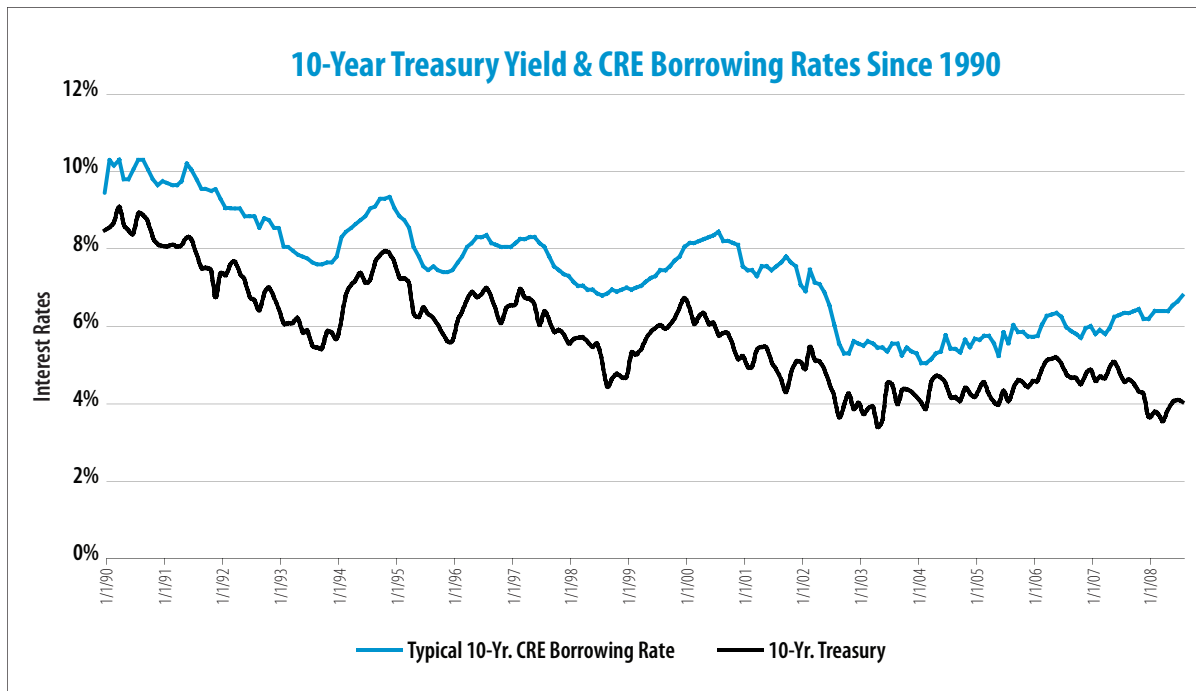
Grandbridge Real Estate Capital

Capital Markets Update | 9.12.08

2008 is proving to be a year of historic financial volatility. The worldwide credit crisis and loans made during 2005, 2006 and early 2007 that had high leverage and aggressive terms are now plaguing banks as they attempt to shed troubled securities from their balance sheets in order to stay solvent. From January 2006 through June 2007, Wall Street and national banks provided more than 60 percent of commercial real estate financing. This year these sources have severely reduced lending activity and account for just 9 percent of acquisition financing, according to Real Capital Analytics. At the same time, the world's biggest banks and securities firms have reported more than \$500 billion in write-downs and credit losses.

The credit and financial markets continue to face formidable challenges including economic uncertainty relating to inflation, oil prices, continued deterioration of the residential housing market, increased unemployment claims and decreased consumer spending. Adding to the ambiguity in the marketplace are political questions and international conflicts.

While the capital markets have significant challenges compared to recent years, debt and equity for commercial real estate transactions remain available at historically attractive rates. Spreads for commercial real estate borrowers have increased, but the yield on the 10-year Treasury bond is well below the 10-year average of 4.71%. Grandbridge Real Estate Capital continues to originate and execute transactions in this market environment.



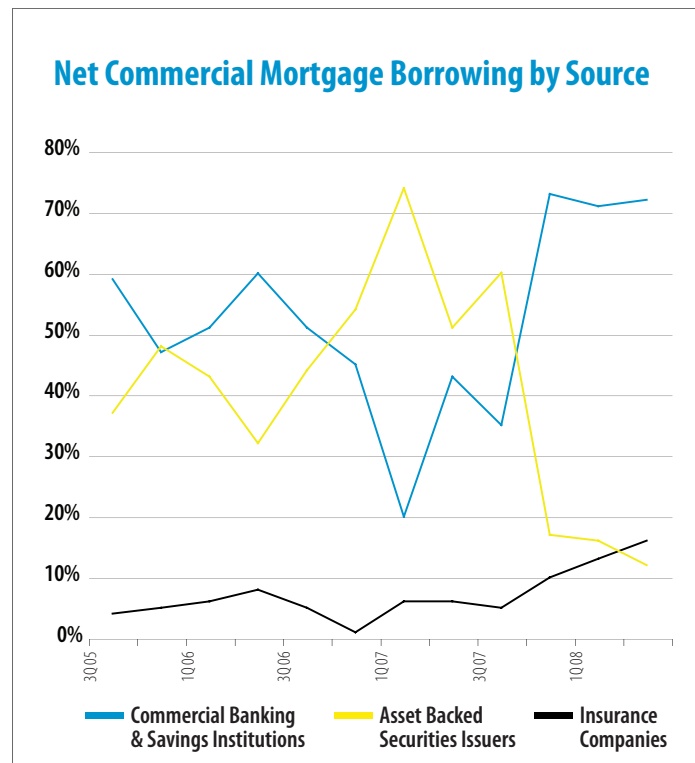
Despite the availability of capital and rates, commercial real estate is experiencing a market revaluation. This revaluation has not yet settled as economic uncertainty weighs on the future performance of retail, office and industrial properties. While the debt and equity markets reassess real estate risk, many commercial property transactions have been postponed or canceled because buyers and sellers are unable to reach an agreement on sale price. According to Real Capital Analytics, commercial real estate sales were down 62 percent during the first half of 2008 and the capitalization of the sales changed significantly from previous years. In this environment, cash investors and equity partners hold the advantage in exploiting current market opportunities. Looking forward, investors search to understand what needs to occur in order for stable credit markets to return. The resolution of the following issues will aid recovery:

- Housing market must hit bottom and show signs of recovery;
- Banks need to clear their balance sheets of troubled assets related to residential and commercial real estate debt;
- Understand the implications of the U.S. Government seizure of Fannie Mae and Freddie Mac;
- Commodity prices must stabilize so full impact of inflation and consumer spending is understood; and
- Buyers and sellers of commercial real estate must accept the changes in the marketplace and begin transacting.

Grandbridge continues to be a very active provider of multifamily capital through both Fannie Mae and Freddie Mac. Year-to-date results include approximately 115 loans totaling more than \$1.2 billion closed through the Grandbridge Fannie Mae DUS® and Freddie Mac Program Plus® programs with an additional \$600 million under application or committed. With the capital markets instability this year, the multifamily sector has the best access to long-term capital at historically attractive interest rates. Fannie Mae and Freddie Mac are the primary reason for that access to capital. "There is no major disruption to the stream of Fannie Mae and Freddie Mac permanent, acquisition and rehab financing supplied to the multi-housing sector, although in general underwriting is tighter, loan dollar rations may be lower, and pricing is higher" says David Cardwell of the National Multi Housing Council.

While it has been a productive first eight months of the year for Fannie and Freddie, it has also been a turbulent ride. The agencies have not been immune to the credit crisis, as the cost of capital that the firms raise (and then lend to property owners) has been steadily climbing. Fannie and Freddie have announced significant spread increases throughout the year, and there remains upward pressure on spreads. However, GSE pricing remains competitive and the volume of new deals quoted and committed remains strong. Fannie Mae and Freddie Mac's commitment to multifamily loan funding remains intact as a result of the U.S. Government intervention.

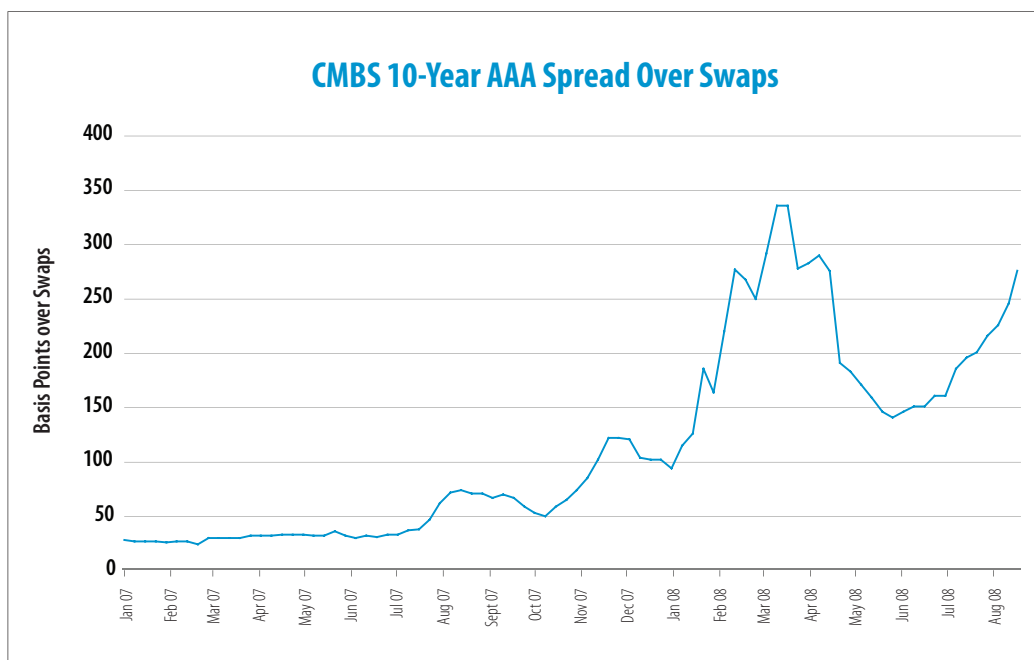
Along with this intervention, agencies are dealing with the same economic realities affecting all investors. How long and how deep the current economic downturn lasts is still uncertain. Fannie Mae and Freddie Mac continue to display strong appetites for opportunities that fall within respective credit underwriting guidelines, but both have tightened credit standards, and transactions that fall outside of these guidelines are viewed more critically. If transaction terms work for a sponsor on a given transaction, sponsors should execute on that transaction given the continuing pressure on credit standards and pricing. Grandbridge continues to encourage sponsors to present opportunities that display solid real estate fundamentals, even if these transactions involve a "story". Market conditions continue to evolve, but Grandbridge's agency platforms consistently deliver competitive debt options on sound multifamily real estate transactions.



Insurance companies and portfolio lenders continue to be the primary source for permanent real estate lending outside of multifamily transactions. In the past year, these lenders have been presented the vast majority of opportunities and are able to select the most conservative deals with most experienced sponsors and demand higher yields on their investments. Their underwriting processes have evolved as these lenders grow more risk averse. One significant change is the increased equity requirement; lenders today will generally only lend 65% of the market value compared to 75% in the recent past. Today, active insurance company lenders are quoting deals in the 6.5%–7% range. While the tolerance of these lenders has adjusted in the last year, they remain the most important lenders in the marketplace for office, retail and industrial transactions. Grandbridge has comprehensive knowledge of this marketplace and partners with active insurance companies with dedicated funds to be invested in commercial real estate. Grandbridge has closed over 150 transactions with 41 insurance company and portfolio lenders in 2008.

Local and regional banks, which had been the most active lenders in the first half of the year, have begun to adjust their risk tolerance as well. Many of these organizations are under increased scrutiny by regulators and are cautiously accounting for existing development loans that have lost value and are at risk of default. FDIC officers are reviewing the asset quality of bank holdings and are requiring banks to raise capital in order to boost reserves. Like all debt sources, local and regional banks have lessened the amount of risk they are willing to take and are demanding higher interest rates for most transactions. These lenders remain competitive for shorter term loans of 3, 5 or 7 years but usually cannot offer full non-recourse debt. Grandbridge has partnered with many local and regional banks and will work to find the very best execution for the client’s real estate needs.

The CMBS market, which feigned signs of life earlier this summer, has again retreated to untenable ground. Yields of AAA rated bonds, which account for approximately 85% of the bonds in a securitization, recently swelled up to 280 basis points over 10 year swap rates after reaching 135 bps in May. Today, the minimum interest rate a CMBS loan could provide is approximately 9.0%. Conduit lenders hope to be competitive and begin originating new loans for securitization once AAA rated bonds trade at 100 bps over swaps. It is not expected that conduit lenders will begin originating new loans until they are able to clear their balance sheets of commercial loans originated in prior years. Conduit Lenders face even more challenges as many 2006 and 2007 vintage CMBS tranches undergo ratings cuts and lose value which is exacerbated by an unstable economic future. The absence of the CMBS market has left a considerable void in the market as banks and insurance company lenders are not able to fulfill borrowers' needs and wants. When the CMBS market does return, borrowers should expect much more conservative underwriting, lower loan to value ratios, less availability of interest only terms, and higher rates.



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. In fact, Grandbridge continues to expand and recently announced the opening of its new Chicago office along with the addition of three accomplished commercial real estate finance professionals. Grandbridge's broad investor base is one of the strongest in the industry and includes leading insurance companies, CMBS lenders, 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). During the first eight months of 2008 Grandbridge closed 330 loans totaling over \$2.5 billion. Grandbridge's servicing portfolio totals \$21.6 billion with 4,724 loans.