

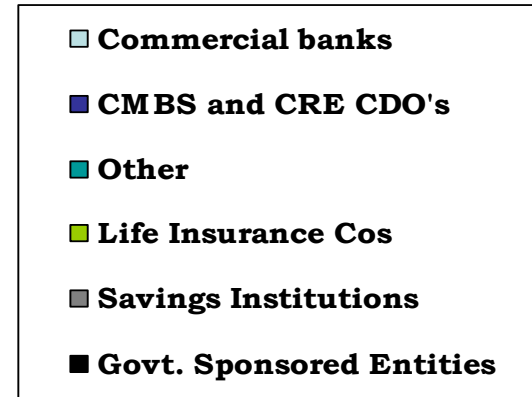
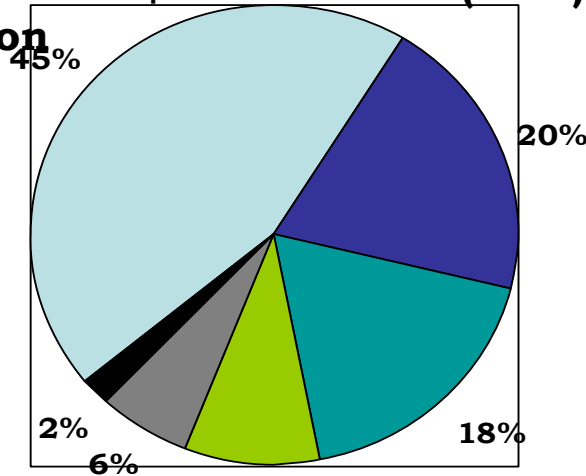
HEADING FOR A SLOW RECOVERY: IN THIS MARKET, NOTHING GOOD COMES EASY

- 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

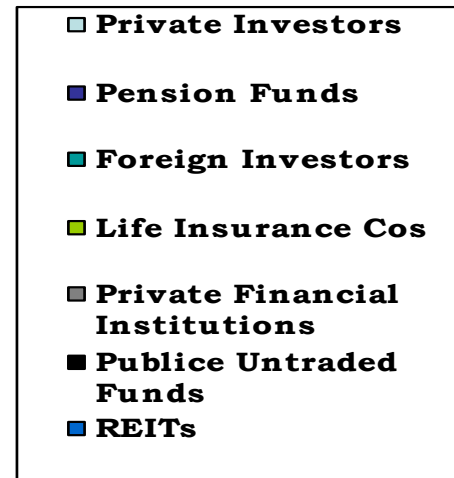
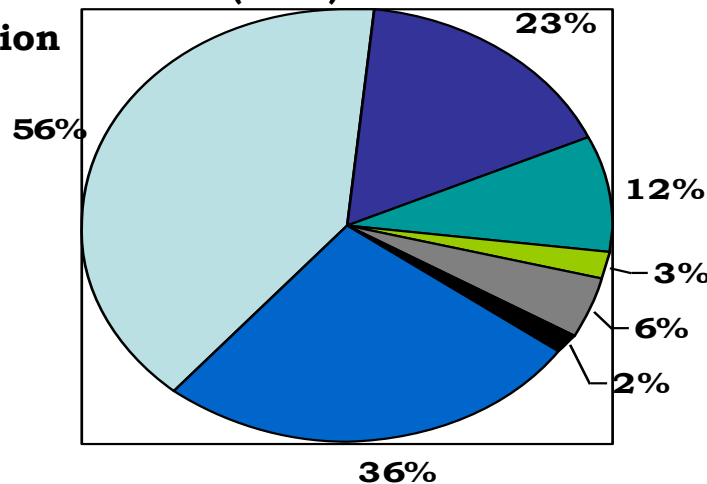
Fixed income Markets - \$3.24 Trillion (74%)

Lender Composition

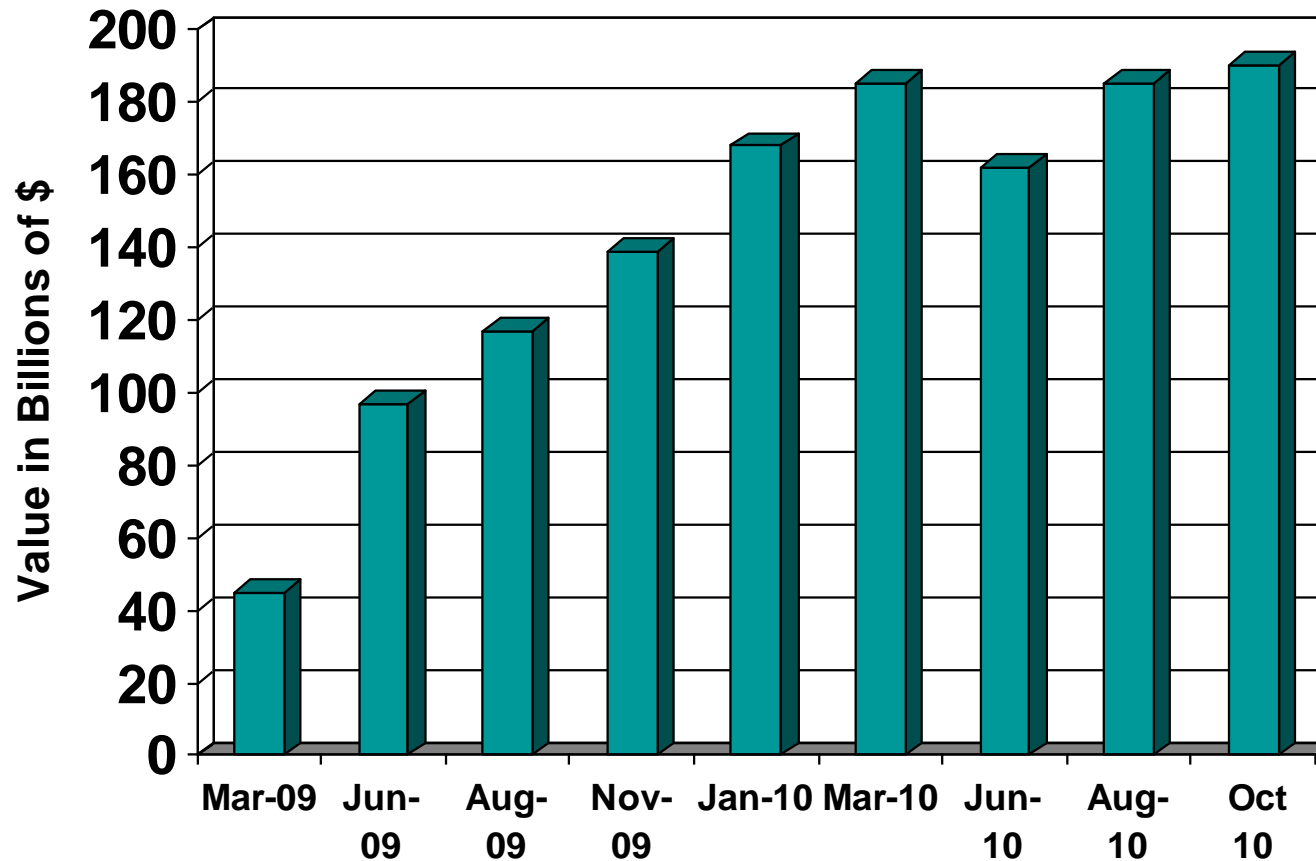


Equity Markets - \$1.1 Trillion (26%)

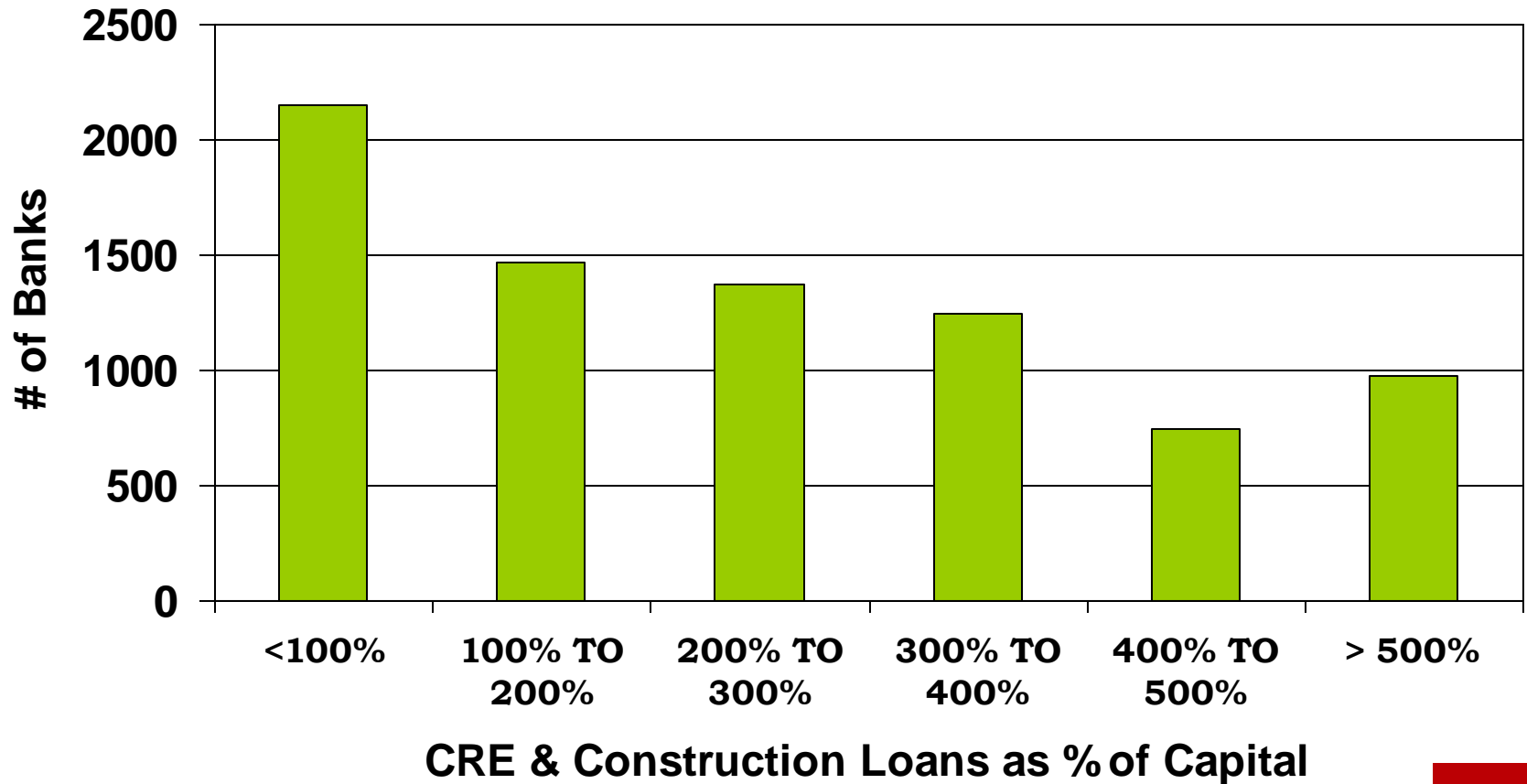
Investor Composition



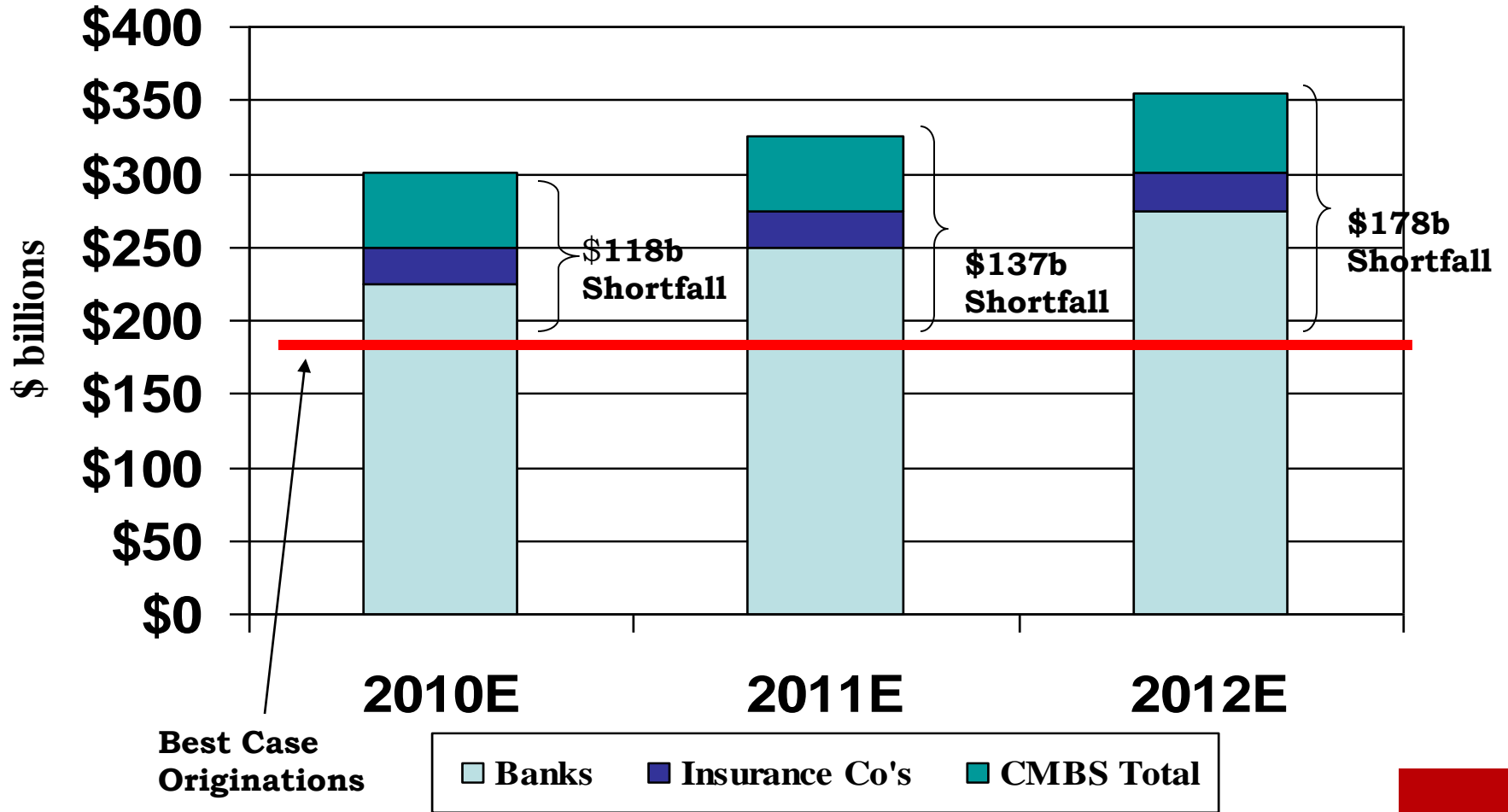
U.S Distressed Commercial Real Estate Volume March 2009-October 2010



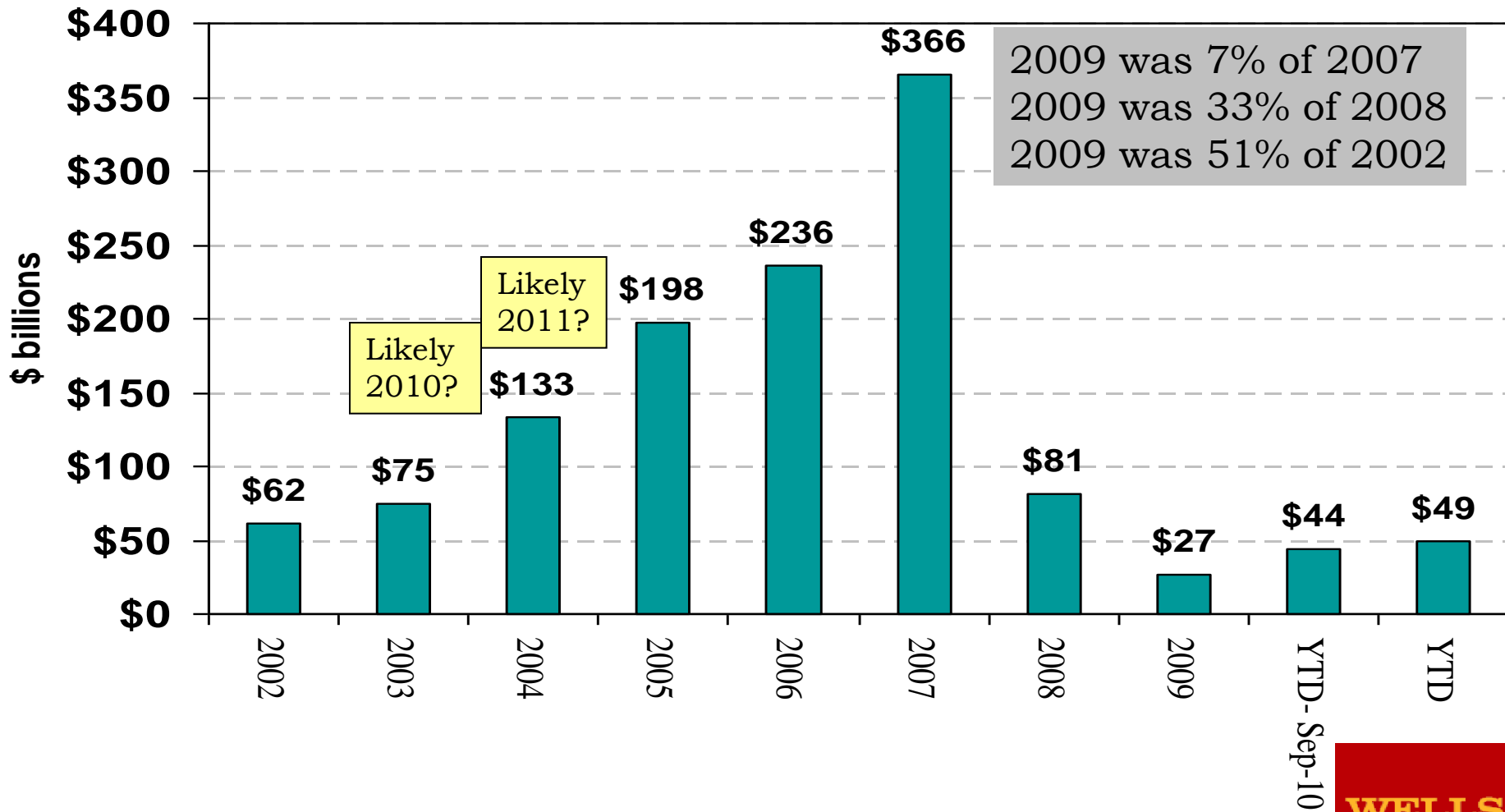
MANY BANKS ARE OVEREXPOSED TO COMMERCIAL REAL ESTATE CRE & CONSTRUCTION LOANS OUTSTANDING AS A % OF BANK CAPITAL WHY THE FDIC WILL BE BUSY FOR QUITE SOME TIME!



Loan Maturities Will Be A Problem!

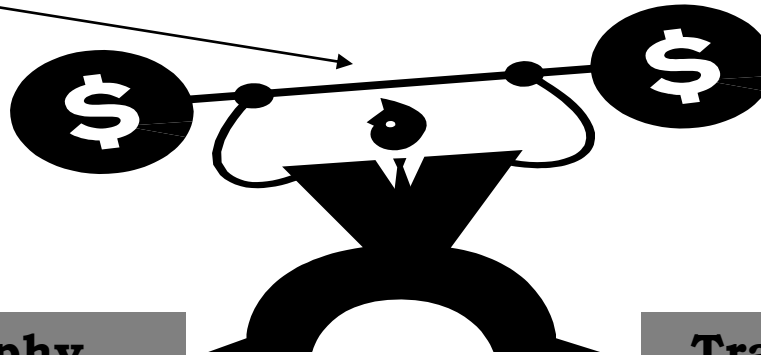


U.S. Sales Volume January – December > \$25 Million



Barbell Investment Market

Limited Capital



Trophy

Trauma

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

• Class A/B Asset
• Less than 50% Leased
• Price PSF Play
• Significant Leasing Exposure
• Bank/Special Servicer Owned!!!

Government – Early 90's vs. Today

<u>Early 90's</u>	<u>Today</u>	<u>Result</u>
<ul style="list-style-type: none">•RTC/FDIC closed banks- sold liabilities and assets separately•Primary focus was outright sale of commercial assets•Manageable size institutions	<ul style="list-style-type: none">•FDIC focused on loss sharing/whole institutional transactions•Commercial Real Estate assets likely to be sold in JV format•Challenges with large institutions	<ul style="list-style-type: none">•The focus on structured transactions allows FDIC to manage capital requirements•May not swamp the market with assets

Banks – Early 90's vs. Today

<u>Early 90's</u>	<u>Today</u>	<u>Result</u>
<ul style="list-style-type: none"> • Banks had to sell assets to raise new equity • Fed Funds: 4.10% 5-year: 6.22% • Bad assets limited to Commercial Real Estate 	<ul style="list-style-type: none"> • Banks passed stress test to raise new equity • Fed Funds: 0.15% 5-year: 2.75% • Consumer, Corporate, Residential, and Commercial Problems 	<ul style="list-style-type: none"> • Banks will extend and hold assets that can pay 4% and fund capex reserves vs. sell • Banks' blended cost of capital is <2%- not sellers at 15% unlevered YTM's • Banks will be more constrained on new loans

Transparency – Early 90's vs. Today

<u>Early 90's</u>	<u>Today</u>	<u>Result</u>
<ul style="list-style-type: none">• No CoStar, real Point, Trepp, etc.• No public data on defaulted loans• Less leasing data• Securitization markets actually developed as a result	<ul style="list-style-type: none">• Immediate notice of any loan in special servicing• Rating Agency downgrades• Real-time market states and pricing stats• Public Market pricing via REIT's	<ul style="list-style-type: none">• Potential faster reset of pricing expectations• Less chance of a Japanese lost decade

Public Market Capital – Early 90’s vs. Today

<u>Early 90’s</u>	<u>Today</u>	<u>Result</u>
<ul style="list-style-type: none">• No REIT Market• No CMBS Market• No transparency	<ul style="list-style-type: none">• Active Equity REIT market• CMBS available at a price• Emerging mortgage REIT market• TALF Financing	<ul style="list-style-type: none">• May be able to fill the capital void with public money faster than we expect• Retail investors short-term memory

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!”

**WELLS
FARGO**