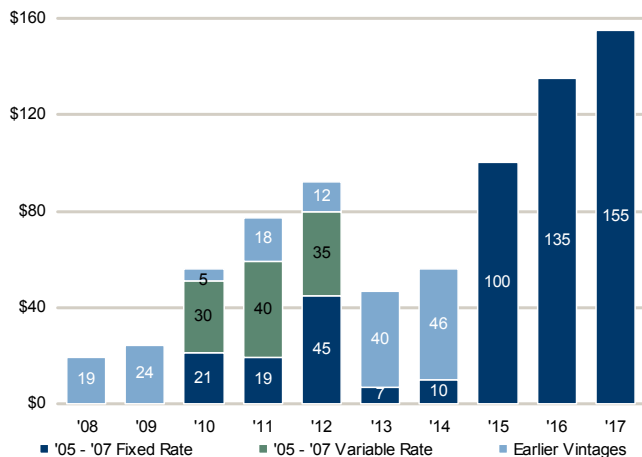


## Overview

- **Crocker Partners** – We continue our disciplined approach to investing. Having not purchased any assets in almost three years (other than a small interest in the B piece of a note), we still have substantial “dry powder” available to take advantage of the impending historic investment opportunities.
- **Equity Markets** – With the exception of capital flows into publicly-traded REITs, equity markets remained frozen during the third quarter.
- **Debt Markets** – Lenders, utilizing severe underwriting standards, are hindering refinancing efforts. The proposed loan proceeds fall considerably below maturing debt levels requiring borrowers to invest substantial equity to cover the difference. Since borrowers are unwilling or unable to do so, their existing lenders are offering short-term “pretend and extend” loan renewals, which allow lenders to stave off write downs and borrowers to earn additional fees. These extensions are enlarging the upcoming 2010-2012 debt bubble that was caused by the massive level of commercial property acquisitions and cheap debt financings between 2005-2007.

CMBS Maturities (\$bn)



Source: Barclays Capital, “Debt – The Missing Link” October 7, 2009

- **Sale Transactions** – Almost no transactions closed during Q3 throughout the Southeast other than a few core trades in the Washington, DC area.
- **Property Values** – The lack of trades makes it difficult, if not impossible, to determine accurate market values; however, anecdotal evidence

suggests that they remain between 30% and 50% off 2007 peak values.

- **Real Estate Market Fundamentals** – Vacancy rates continue to climb toward historic highs and effective rents have plummeted by between 20% and 35%, depending on the submarket. Fundamentals should continue to weaken over the next 12 to 24 months before rebounding. Since many owners will not or cannot invest capital into their properties, they will be unable to (i) retain their existing tenants, (ii) backfill vacant space, or (iii) maintain the physical assets themselves. In short, the properties will begin to waste and fall into disrepair; the marketplace has already begun to label them as “zombie” buildings. Ironically, lenders are creating a vicious circle – by extending a loan maturity date until the building-level cash flow is no longer able to cover debt service, the lenders will end up foreclosing on collateral that will be worth a fraction of its current value.
- **Investment Opportunity** – Once lenders take-back assets and liquidate them, there will be a significant increase in sale transaction volume. Buyers will find a favorable imbalance between supply and demand that will result in distressed pricing for non-distressed assets. Crocker Partners will be able to acquire properties having value-add risk that will provide outsized opportunistic returns.

## About Crocker Partners

Crocker Partners is a private equity fund manager that invests capital in office product located in primary submarkets along the East Coast of the United States. We are currently investing capital on behalf of Crocker Partners IV, a closed-end fund focusing on value-add and opportunistic office investments located within the Southeast U.S.



Our investors include some of the largest and most respected institutional investors in the world.