

Overview

Crocker Partners Fund IV – The market is starting to show signs of life and we are pleased with the results of our disciplined investment approach. As predicted in our prior quarterly update, recent activity consists mainly of highly structured transactions involving defaulted or impaired loans, rather than traditional fee simple purchases. We are aggressively pursuing over \$300 million of transactions in our target markets involving assets and submarkets we know well, at attractive pricing of potentially 30%-40% below previous sales prices.

We anticipate a marked increase in transaction flow over the next 12 to 24 months from national and regional banks and special servicers. Our discussions with balance sheet lenders indicate that the spread between the book value of their underwater loans and the fair market value of the collateral is rapidly contracting and should lead to a dramatic increase in REO sales commencing in 2011. In the CMBS arena, special servicers are now claiming that they will no longer employ the “pretend and extend” strategy, which has been their mainstay tactic for the past 24 months. Rather, they will only extend a loan upon maturity in exchange for a substantial rebalancing of the loan and evidence from the borrower that it has the capacity to stabilize and maintain the rent roll. As record levels of CMBS debt mature between 2011 and 2013, we anticipate a flood of forced property sales will occur at attractive pricing.

We are monitoring these trends closely and actively pursuing transactions with borrowers, lenders and special servicers where Crocker has the distinct competitive advantage of having either owned the particular asset or a neighboring one within the submarket.

Debt Markets – For the second consecutive quarter, the most notable changes in commercial real estate occurred in the debt market. Various types of lenders (including CMBS conduits) are re-entering the market and offering increasingly favorable terms. For example, on a stabilized asset, a borrower can find debt of 65% to 70% LTV at an interest rate between 6.25% and 7%. Some lenders are even exploring creative strategies to lend in the value-add sector. One lender recently discussed a program that will offer up to 85% of today’s LTV on value-added investments, with a portion of the note paid current and the remainder accruing until maturity with the goal of achieving an all-in return of 9%-12%. While this program permits the borrower to achieve a high level of proceeds, the cost is relatively high since the marginal dollars above a standard sized loan of 50%-60% LTV are being borrowed at a mid to upper teens rate.

Real Estate Market Fundamentals – Vacancy rates continue to climb toward historic highs and effective rents remain between 20% and 35% off peak rates. Fundamentals should continue to weaken over the next 12 to 18 months due to the

abundance of currently leased but unutilized space that will return to market as the underlying leases expire. Since we expect employment gains to be weak for several years, we do not anticipate that most of our markets will stabilize until 2014-15.

Property Trades – Sales activity remained muted during the First Quarter. For the most part, trades consisted of stabilized, core assets predominately located in and around Washington, DC. Almost all other sales, regardless of the market, consisted of single-tenant occupied assets, sale-leaseback transactions, or were purchased by users.

Current Pipeline

We have nine potential transactions in our pipeline. The key to successful execution of these investments is the active engagement of all stakeholders. More than half of the proposed deals are structured transactions among Crocker, the lender, and the borrower. We sourced all the transactions through our ongoing dialog with the respective lenders and borrowers, which began, in most cases, over two years ago. The remaining transactions involve acquisitions of properties that are soon to be REO. In all instances, we are underwriting the deals to achieve a leveraged 20% IRR and 2.0x multiple. Below are a couple of examples:

- **CMBS Debt Restructuring** – Debt on previously owned properties is in special servicing. We have an opportunity to recapitalize the current owner with a preferred equity investment that has substantial upside participation. As part of the transaction, we will be the local operator and plan to implement an aggressive value-add program designed to stabilize the existing rent roll and backfill the substantial vacancies.
- **Florida Loan/Asset Acquisition** – Opportunity to acquire a defaulted loan at up to a 50% discount to face value, which is secured by a mortgage on an asset located in one of our target markets. Once acquired, we will restructure the debt with the existing borrower so that our investment will become preferred equity with substantial upside participation.

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.