



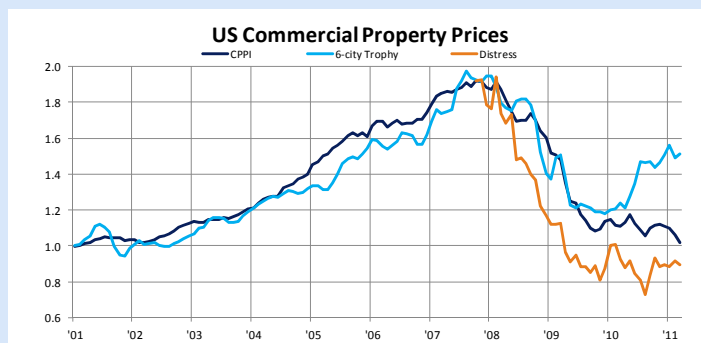
2011 Q2 Market Update

Overview – Last quarter, our markets (with the notable exception of the Washington DC metropolitan area) experienced a slowdown in transaction volume. It appears we are in a trough between the initial wave of asset sales and debt recapitalizations driven by balance sheet lenders and an impending tsunami of similar transactions expected to emerge from CMBS special servicers.

Debt markets for well-leased, stabilized assets continue to strengthen with CMBS originators leading in terms of volume, spreads, and coverage ratios. Underwriting standards appear to have swung back toward the norm. Lenders are now willing to provide loans secured by assets that are as low as 80% occupied in stressed submarkets, a significant shift from a year ago at which time traditional lenders looked to invest solely in 90% plus leased assets in well-occupied submarkets. It is interesting to note that although interest rates remain attractive, a recent disruption in the CMBS market caused spreads to widen significantly to where they were nine months ago. The effect on interest rates, however, has been somewhat muted as the increase was partially offset by lower swap and Treasury rates. With respect to properties that are less than 80% leased, available debt consists of loans from specialty lenders at higher interest rates.

Despite the market-wide slowdown in transactions this past quarter, Crocker Partners acquired a 270,000sf office tower in downtown Fort Lauderdale and has made a non-refundable deposit on a 420,000sf office tower in downtown Miami, which we expect to close by mid-August. Each property is extremely well-located within its respective CBD submarket and has superb competitive advantages within the marketplace (e.g., the Miami tower has by far the best parking ratio in the submarket). Crocker Partners acquired these assets at significant discounts to replacement costs (discounts of 59% and 61%, respectively) and at cost bases that are a fraction of what they traded for in the past. As a result, we expect that both investments will, at a minimum, achieve 18-20% leveraged returns and over a 2.0x equity multiple based solely on lease up and rollover risk. These projected returns are based on conservative underwriting that, among other things, assumes a historically slow recovery and no growth in rents beyond prior peak rents. The returns spike dramatically higher should our value-add business plans succeed (e.g., performing renovations to achieve higher than pro forma rents, adding development rights, and creating leaseable space).

Coremania Update - If you are a regular reader of this publication, then you know that since the middle of last year we have been warning that core properties are trading at dangerously high prices and that these buyers are taking on too much risk for the relatively paltry returns. It seems that owners of core and core-like properties agree with us as they appear to be rushing their assets to market before the music stops. As illustrated in the above chart, top tier properties in primary markets have experienced a significant recovery, but there has been no recovery for non-core and distressed properties.



6-City Trophy = prior sale > \$10M; NY,DC,BO,CH,LA,SF; excludes distress
 Distress = properties where second sale was sold pursuant to a distressed situation
 CPPI = Moody's/REAL National All Property Types; Source: RCA/Geltner & Associates

Investment Opportunity - In addition to highlighting the fact that there has been a significant value recovery in core properties, the above graph indicates that pricing for non-core and distressed assets has not improved since the 2008-09 value implosion. As one of the few active buyers of value-add office buildings today (we have acquired over \$300 million of value-add office buildings over the past six months), we have noticed that there are few competitive bidders today. This has led to very attractive acquisition prices allowing buyers to achieve returns far in excess of the risk of the investment. The lack of bidders is a combination of there being far fewer buyers with available capital today and even those with cash are scared off by weak real estate fundamentals which face a long-term recovery. We, however, see this as an opportunity. It is relatively easy to underwrite a slow recovery, plus our experience tells us that buying assets in stressed real estate markets results in superior risk-adjusted returns.

Over time, the US economy will expand. Even if the recovery remains slow, the office jobs lost in the recent downturn will eventually be replaced. As tenants begin leasing up the existing office inventory, rents will grow and most likely will spike significantly due to the lack of new supply (with few exceptions, there is no new office construction in the development pipeline in our markets). Some observers might call our perspective optimistic; however, our typical base case underwriting assumes a longer employment recovery period than any experienced since the Great Depression. For instance, in acquiring the Miami office tower, we assumed that occupancy and rents do not stabilize until 2016 (which implies a 96 month recovery cycle versus a post-Depression average of 32 months). Despite using this conservative approach, we expect to achieve an 18% leveraged IRR and 2.3x equity multiple with reasonable leverage and exit pricing. Further, these base case returns do not include any upside scenarios, which if they occur, can drive returns into the upper 20%'s. Unlike 2005-08 acquisitions, deals today are not being "priced to perfection," but rather are being "priced to moderation." The great news is that if we are wrong and our conservative assumptions prove to be too optimistic and it actually takes until 2018 to stabilize the asset (which would be 11 years since the last peak), we will in fact fail to hit our pro forma returns, but our investors will still achieve a 13% leveraged IRR and a 2.3x equity multiple. Clearly, the opportunity is here today.