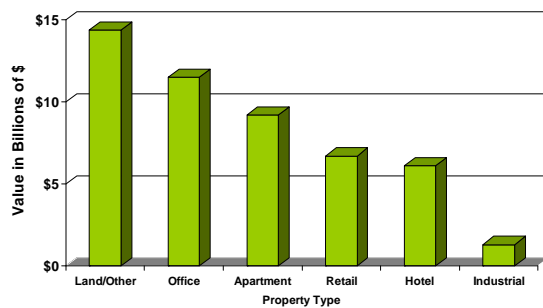


**Distressed Commercial Real Estate
Volume: Doubles in Two Months**

Nationally, the total value of **distressed commercial real estate** in February 2009 was \$49.2 billion, including properties in distress, foreclosure, or lender REO. Land and development properties represented the largest segment, at \$14.4 billion.

**U.S. Distressed Commercial Real Estate by Type
February 2009**



Source: Real Capital Analytics, Delta Associates; March 2009.

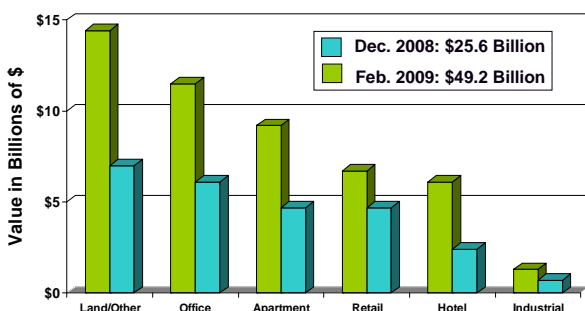
Note: Includes properties currently in default or foreclosure, plus lender REO.

The national volume of distressed commercial real estate grew by 92% from December 2008, when the total was \$25.6 billion.

Every product type recorded an increase in distressed real estate asset volume.

- Hotel properties increased the most: 154%, or \$6.1 billion.
- Retail properties recorded the smallest increase, up 43% to \$6.7 billion.

**Change in U.S. Distressed Commercial Real Estate
December 2008 — February 2009**



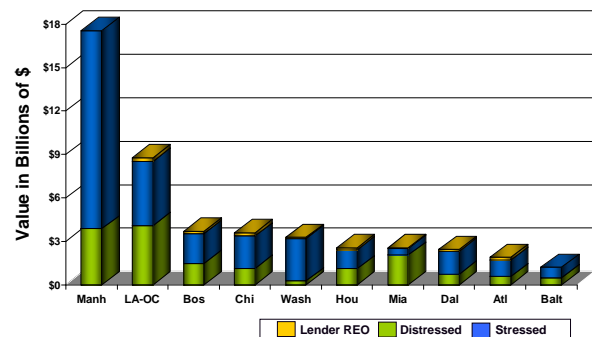
Source: Real Capital Analytics, Delta Associates; March 2009.

Note: Includes properties in default or foreclosure, plus lender REO.

**Stressed Today,
Distressed Tomorrow!**

While the volume of distressed assets is significant, also consider the looming volume of **stressed commercial real estate assets**: These properties have characteristics of concern in the short term – maturing loans, bankrupt tenants, underperformance, financially troubled owner, or other significant obstacles.

**U.S. Stressed Commercial Real Estate by Market
March 2009**

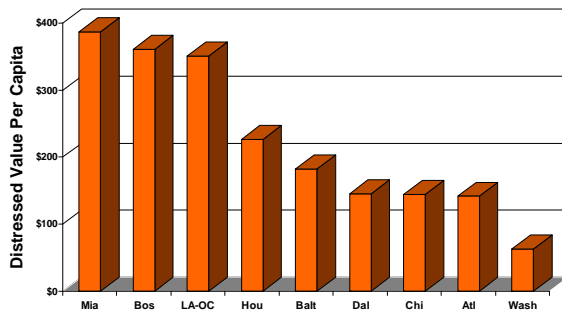


Source: Real Capital Analytics, Delta Associates; March 2009.

The Manhattan market has the second-highest volume of distressed real estate assets (after Los Angeles-Orange County), but it has \$13.7 billion in potentially distressed real estate assets as of March 2009. Turmoil in the financial industry, coupled with the housing slowdown, has threatened the performance of many buildings and potential developments.

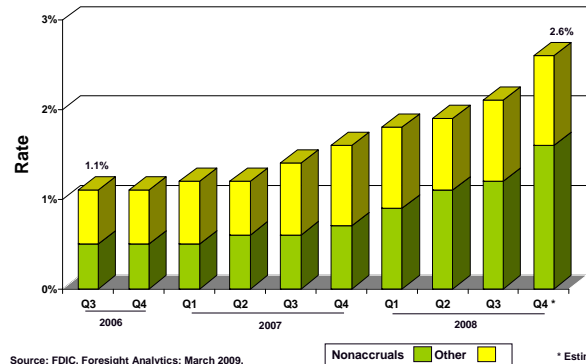
Miami, which has \$387 in distressed commercial real estate per capita, has the highest ratio per capita. The Washington metro area has the lowest at just \$63 per capita.

**Distressed Commercial Real Estate Value Per Capita
March 2009**



Source: Real Capital Analytics, Delta Associates; March 2009. Note: Excludes Manhattan at \$2,380 per capita. Includes properties in default or foreclosure, plus tender REO.

**Total Delinquency and Nonaccrual Rates
Commercial Mortgages**



Source: FDIC, Foresight Analytics; March 2009. * Estimated

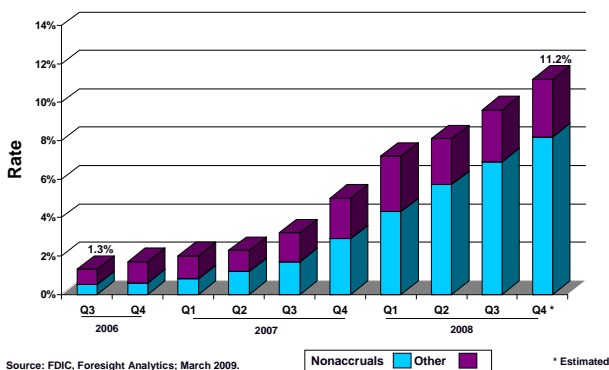
Delinquency Rates: On the Rise

Led by problems in the single-family sector, the construction loan delinquency rate rose sharply from 9.6% in the 3rd Quarter of 2008 to an estimated 11.2% at year-end 2008 – the highest rate since the early 1990s. According to Foresight Research, the non-accrual rate, which rose from 2.9% to 8.2% during 2008, is largely responsible for the increase in total delinquency.

**Mortgage Maturities: Peaking
In 2012-2013**

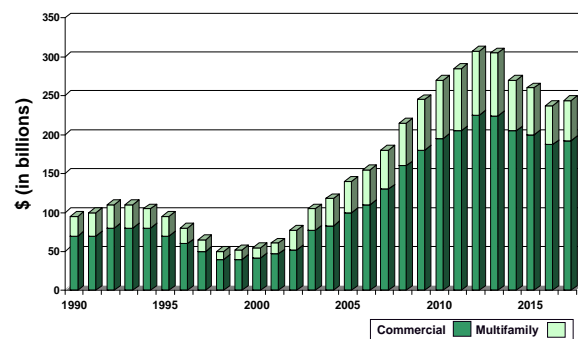
In addition to delinquencies, a rising tide of mortgage maturities – in excess of \$300 billion in 2012 and 2013 – must be addressed by the commercial mortgage market in the years ahead. The situation is likely to be made more difficult by a weak economy, tight capital, and lower values.

**Total Delinquency and Nonaccrual Rates
Construction Loans**



Source: FDIC, Foresight Analytics; March 2009. * Estimated

**Commercial and Multifamily Mortgage Maturities
Loans Maturing by Year**



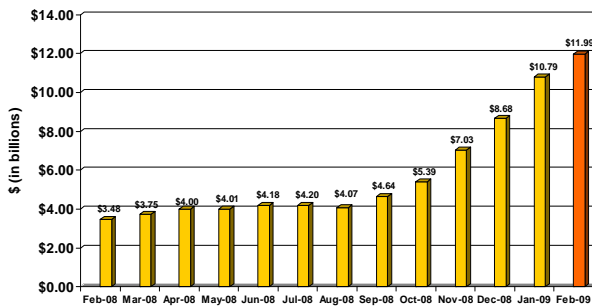
Source: Federal Reserve, Foresight Analytics; March 2009.

The commercial mortgage sector had an estimated 2.6% delinquency rate at year-end 2008, compared to 2.1% in the 3rd Quarter and 1.6% at year-end 2007. Again, nonaccruals are the main factor, accounting for about 60 percent of delinquency.

CMBS Delinquency: A Similar Pattern

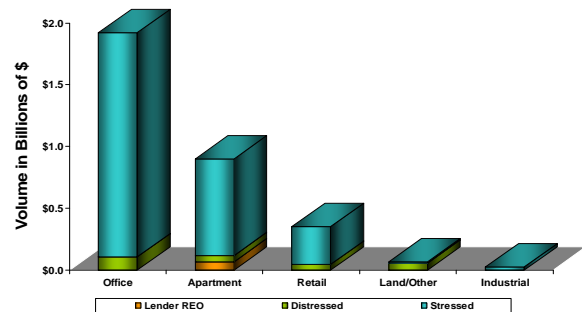
The 12-month trailing delinquent unpaid balance of commercial mortgage backed securities (CMBS) has risen for six consecutive months to \$12 billion in February 2009. The delinquent balance is 1.43% of the total unpaid CMBS balance of \$837.8 billion.

Monthly CMBS Delinquency



Source: Realpoint Research; March 2009.

Distressed Commercial Real Estate By Severity and Type Washington Metro Area



Source: Real Capital Analytics, Delta Associates; March 2009.

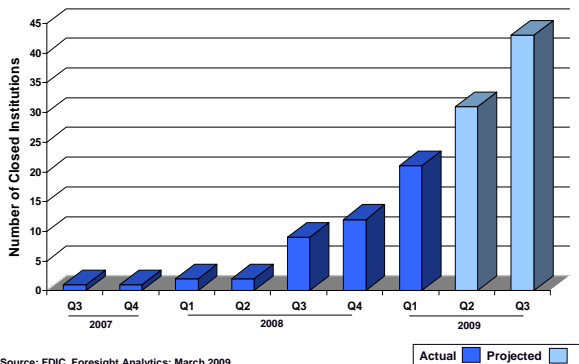
More Bank Failures Ahead

The twin problems of rising delinquency rates and maturing mortgages point to a tougher environment ahead for lending institutions. The number of bank failures has risen significantly since the 2nd Quarter of 2008, and Foresight Analytics projects that almost 75 banks will fail in the 2nd and 3rd Quarters of 2009.

Distress Is Focused on Northern Virginia

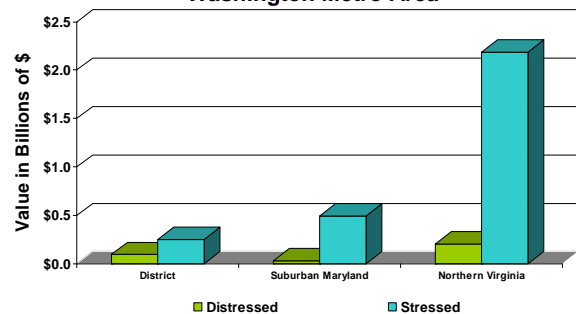
In the Washington area, Northern Virginia has the highest volume of distressed commercial real estate – \$210 million – and the highest volume of potentially distressed assets, \$2.2 billion. Both the District and Suburban Maryland face looming volumes of potentially distressed assets as well.

Bank Failures Current Cycle and Near-term Forecast



Source: FDIC, Foresight Analytics; March 2009.

Distressed Commercial Real Estate By Substate Area Washington Metro Area



Source: Real Capital Analytics, Delta Associates; March 2009.

Note: Distressed includes properties in default or foreclosure, plus lender REO.

Washington Has Few Distressed Commercial Assets, But Office Properties Lead the Way

Washington area office properties lead in distressed volume, but apartment complexes are experiencing a high combined volume of distressed and lender REO properties. The volume of potentially distressed office assets in the Washington area exceeds \$1.8 billion.

Watch for Volume 2 in this reporting series in May 2009. If you would like to subscribe free of charge, send your request to:

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Delta Associates, the research affiliate of Transwestern, is a firm of experienced professionals offering, consulting, valuation, and data services to the commercial real estate industry for over 25 years. The firm's practice is organized in four related areas:

1. **Valuation** services for partial interests in commercial real estate assets.
2. **Consulting**, research and advisory services for commercial real estate projects, including market studies, market entry strategies, asset performance enhancement studies, pre-acquisition due diligence, and financial and fiscal impact analyses.
3. **Distressed asset recovery services** to include property performance analyses and enhancement studies, debt structuring evaluation and note valuations, portfolio assembly due diligence, valuations, and litigation support.
4. **Subscription data** for selected metro regions for office, industrial, retail, condominium, and apartment markets.

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Distressed Asset Recovery Team



Beers + Cutler

 BlackwellAdvisors, LLC

 Fore Consulting, Inc.

Delta Associates has partnered with Beers+Cutler, Fore Consulting, and Blackwell Advisors to form the Distressed Asset Recovery Team (DART). This partnership offers services to government entities as well as borrowers and lenders to assist with the resolution of stressed real estate matters during this time of economic turmoil. These workout services include:

1. Property performance analysis
2. Debt restructuring analysis and note valuations
3. Investment advisory and portfolio assembly due diligence
4. Asset performance enhancement analysis
5. Valuation services
6. Forensic accounting and tax impact analysis
7. Litigation support and dispute resolution services

For more information, please contact Greg Leisch, Delta's CEO, at: Greg.Leisch@DeltaAssociates.com

