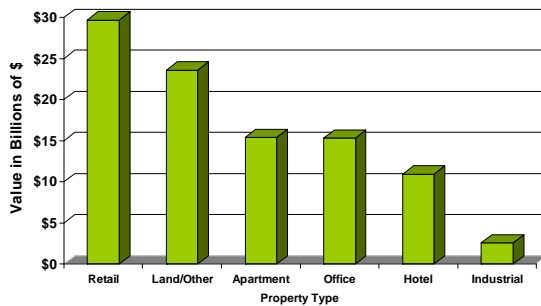


Distressed Commercial Real Estate Volume Doubles Every 3 Months Since December 2008

Nationally, the total value of **distressed commercial real estate** in June 2009 was \$97.4 billion, including properties in distress, foreclosure, or lender REO. This is twice the \$49 billion of March and four times that of December at \$25.6 billion.

Retail properties represent the largest segment in June, at \$29.7 billion, boosted by General Growth Property's recent bankruptcy filing and retailing's sector malaise.

U.S. Distressed Commercial Real Estate by Type June 2009

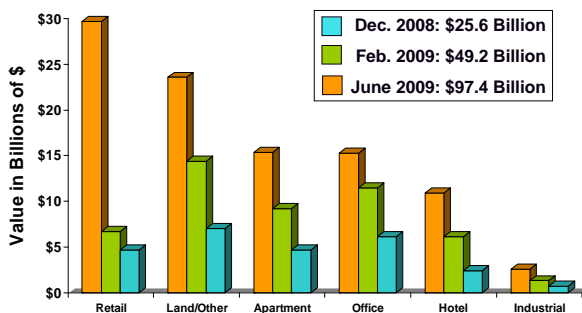


Source: Real Capital Analytics, Delta Associates; June 2009. Note: Includes properties currently in default or foreclosure, plus lender REO.

Every product type recorded an increase.

- Retail properties increased the most, up 343%, to \$29.7 billion.
- Office properties recorded the smallest increase, up 33% to \$15.3 billion.

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

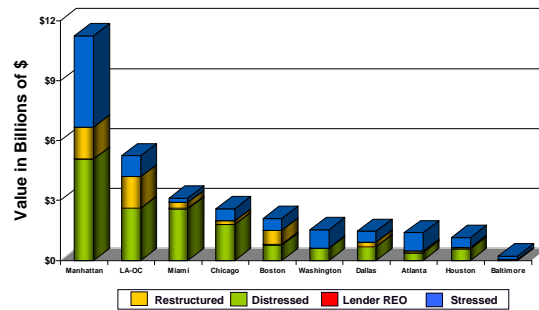


Source: Real Capital Analytics, Delta Associates; June 2009. Note: Includes properties in default or foreclosure, plus lender REO.

Stressed Commercial Real Estate Assets

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 June 2009

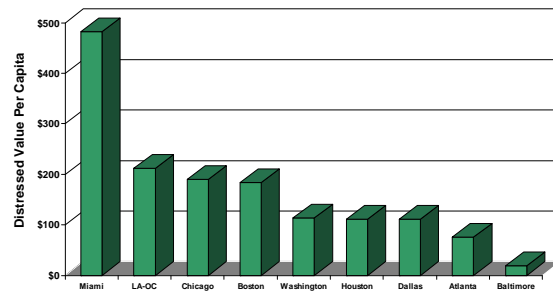


Source: Real Capital Analytics, Delta Associates; June 2009.

The Manhattan market has the highest volume of distressed real estate assets (followed by Los Angeles-Orange County), and it also has \$4.6 billion in potentially distressed (what we call “stressed”) real estate assets as of June 2009. Turmoil in the financial industry, coupled with the housing slowdown, has threatened the performance of many buildings and potential developments.

Miami, with \$482 in distressed commercial property per capita, has the highest ratio per capita. The Houston metro, our featured area in this issue, has the fourth lowest at just \$112 per capita.

Distressed Commercial Real Estate Value Per Capita June 2009

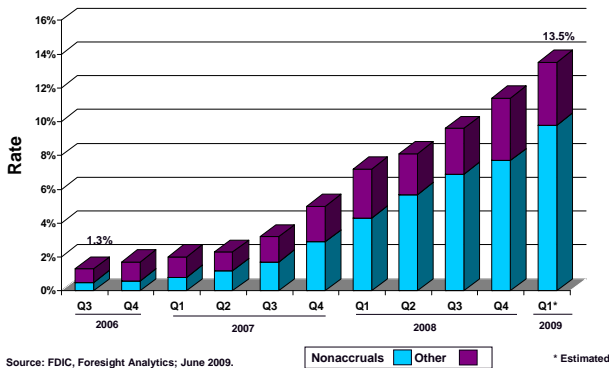


Source: Real Capital Analytics, Delta Associates; June 2009. Note: Excludes Manhattan at \$3,132 per capita. Includes properties in default or foreclosure, plus lender REO.

Delinquency Rates: Rising in all Sectors

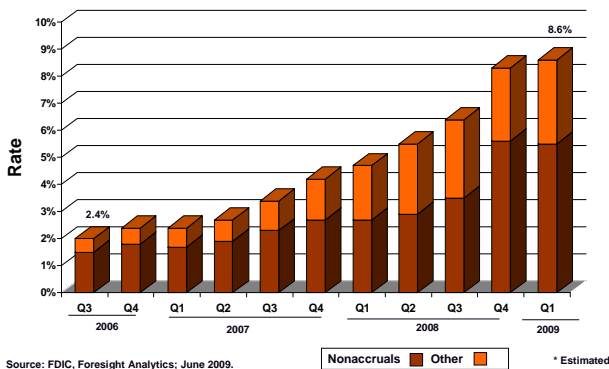
Led by problems in the single-family sector, the construction loan delinquency rate has risen sharply in the past year, from 7.2% in the 1st Quarter of 2008 to an estimated 13.5% in the 1st Quarter of 2009, which is the highest rate since 1992. According to Foresight Analytics, the non-accrual rate, which rose from 2.9% to 9.8% during the same period, is largely responsible for the increase in total delinquency.

Total Delinquency and Nonaccrual Rates Construction Loans



In the single-family mortgage sector, the 1st Quarter 2009 total delinquency rate was 8.6%, including 3.1% for nonaccruals. In comparison, total delinquency was 4.7% in the 1st Quarter of 2008, with 2.0% for nonaccruals. Foresight Analytics reports that 90-day+ delinquencies have swelled during the past two quarters.

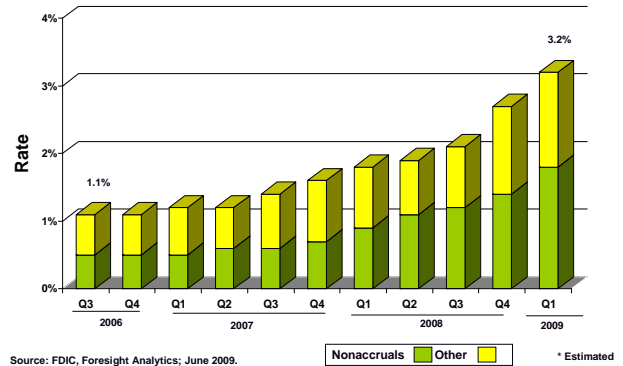
Total Delinquency and Nonaccrual Rates Residential Mortgages



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

The commercial mortgage sector had an estimated 3.2% delinquency rate in the 1st Quarter of 2009, compared to 2.7% at year-end 2008 and 1.8% in the 1st Quarter of 2008. Again, nonaccruals are the main factor, accounting for more than two-thirds of total delinquency.

Total Delinquency and Nonaccrual Rates Commercial Mortgages

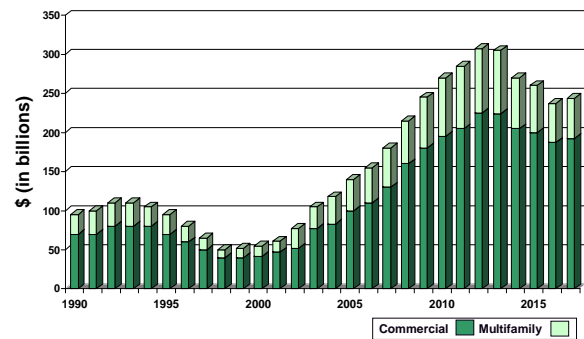


Source: FDIC, Foresight Analytics; June 2009. * Estimated

Mortgage Maturities: Peaking In 2012-2013

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

Commercial and Multifamily Mortgage Maturities Loans Maturing by Year

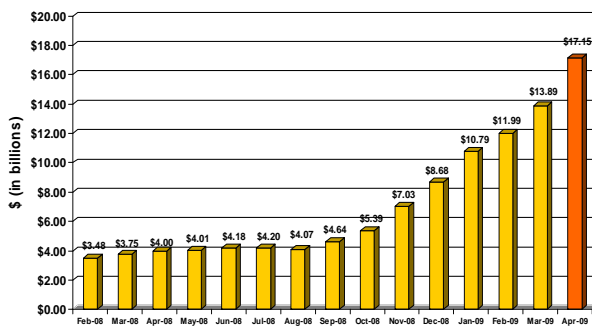


Source: Federal Reserve, Foresight Analytics; June 2009.

CMBS Delinquency: True to Form

Since September 2008, the 12-month trailing delinquent unpaid balance of commercial mortgage backed securities (CMBS) has risen by \$12.5 billion, or 73%, to \$17.1 billion in February 2009. The delinquent balance is 2.1% of the total unpaid CMBS balance of \$830.1 billion.

Monthly CMBS Delinquency

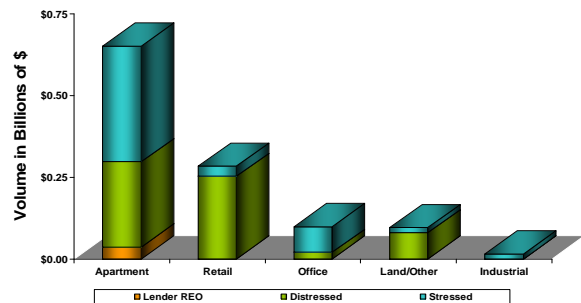


Source: Realpoint Research; June 2009.

**Featured Metro: Houston.
Modest Distress, But Apartments Lead
The Way**

Houston area multifamily apartment properties lead in distressed volume, but retail centers are experiencing a high combined volume of distressed and lender REO.

**Distressed Commercial Real Estate
By Severity and Type
Houston Metro Area**

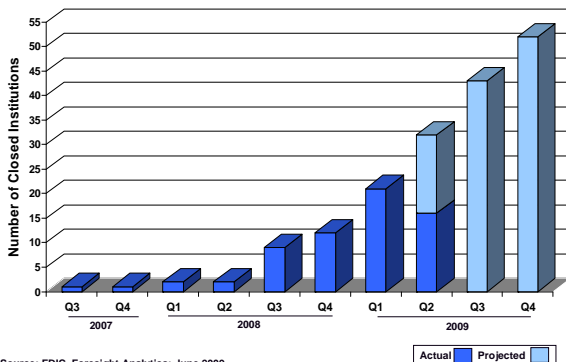


Source: Real Capital Analytics, Delta Associates; June 2009.

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 mid-2008, and Foresight Analytics projects that more than 90 banks will fail in the 3rd and 4th Quarters of 2009.

**Bank Failures
Current Cycle and Near-term Forecast**



Source: FDIC, Foresight Analytics; June 2009.

Watch for Volume 3 in this reporting series in September 2009. If you would like to subscribe free of charge, send your request to: David.Parham@DeltaAssociates.Com.



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 three 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.

For further information about Delta Associates and to see all of our publications, please browse our web site at:

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Distressed Asset Recovery Team



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

