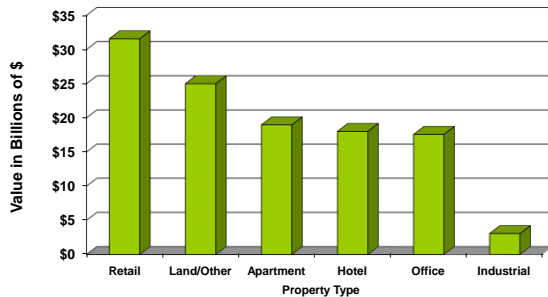


Distress: Rate of Growth Slowed over the Summer. Trend or Blip?

Nationally, the total value of **distressed commercial real estate** in August 2009 is \$114.2 billion, including properties in distress, foreclosure, and lender REO, according to data from Real Capital Analytics. This is an increase of 17%, or \$16.8 billion, since our June report. This rate of growth has slowed from earlier in the year – in the first half of 2009 the total value was doubling every three months. It is our experience from working with clients that this reflects the temper of many lenders to work with borrowers in extending debt obligations, with or without credit enhancement.

Retail properties continue to represent the largest segment, at \$32.7 billion in August compared to \$29.7 billion in June.

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



Source: Real Capital Analytics, graphic by Delta Associates; August 2009.

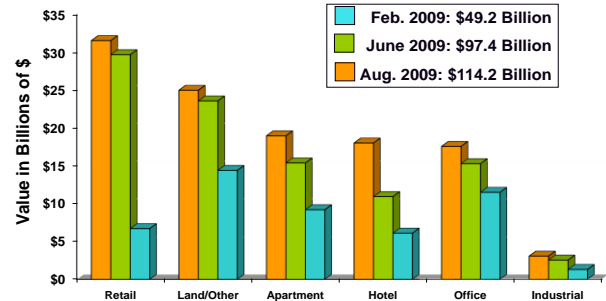
Note: Includes properties in default or foreclosure, plus lender REO.

Every product type recorded an increase.

- Hotel properties increased the most, up 65%, to \$18.0 billion.
- Land/Other recorded the smallest increase, up 6% to \$25.0 billion.

Watch for Volume 4 in this reporting series in November 2009. If you would like to subscribe free of charge, send your request to: David.Parham@DeltaAssociates.Com.

Change in U.S. Distressed Commercial Real Estate February 2009 — August 2009



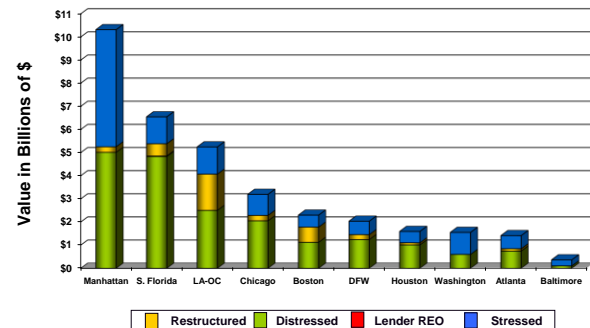
Source: Real Capital Analytics, graphic by Delta Associates; August 2009.

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 that could lead to distress in the future.

U.S. Stressed Commercial Real Estate by Market August 2009



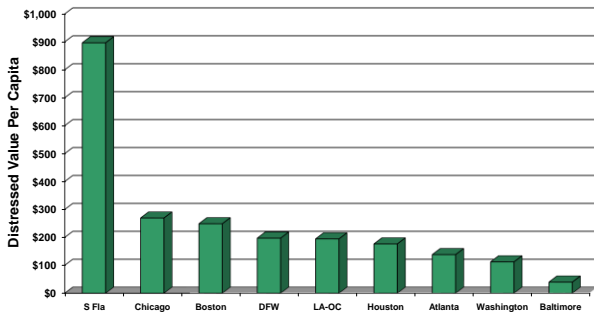
Source: Real Capital Analytics, graphic by Delta Associates; August 2009.

Note: Value based on loan amount.

The Manhattan market has the highest volume of distressed real estate assets (followed by South Florida), and it also has \$5.1 billion in potentially distressed (what we call “stressed”) real estate assets as of August 2009. Turmoil in the financial industry, coupled with the housing slowdown, has threatened the performance of many buildings and potential developments.

South Florida, with \$896 in distressed property per capita, has the highest ratio per capita. The Chicago metro area, our featured market in this issue, has the next highest at \$269 per capita.

Distressed Commercial Real Estate Value Per Capita August 2009

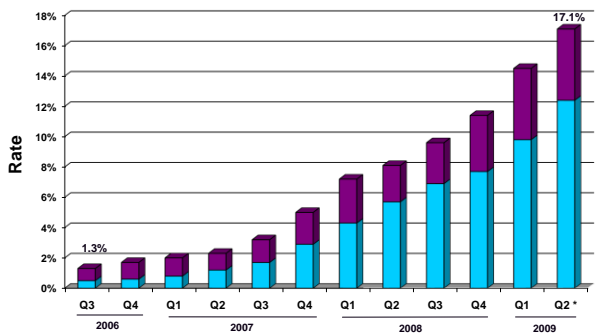


Source: Real Capital Analytics, graphic by Delta Associates, August 2009. Note: Excludes Manhattan at \$3,067 per capita. Includes properties in default or foreclosure, and lender REO. Value based on loan amount.

Delinquency Rates: Rising in all Sectors

Single-family and condo loans continue to account for most of the delinquency problems with construction loans, according to Foresight Analytics. But declining fundamentals and liquidity issues are pushing delinquencies up for other property types as well. The delinquency rate has risen sharply in the past six quarters, from 7.2% in the 1st Quarter of 2008 to 17.1% in the 2nd Quarter of 2009. The non-accrual rate, which rose from 2.9% to 12.4% in the same period, is largely responsible for the increase in total delinquency.

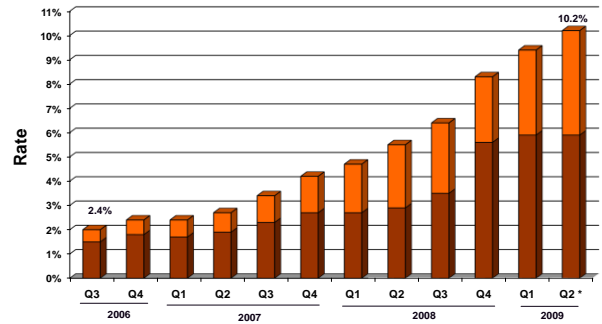
Total Delinquency and Nonaccrual Rates Construction Loans



Source: FDIC, Foresight Analytics, graphic by Delta Associates, August 2009. * Estimated

In the first-lien single-family mortgage sector, the 2nd Quarter 2009 total delinquency rate was 10.2%, including 4.3% for nonaccruals. In comparison, total delinquency was 5.5% in the 2nd Quarter of 2008, with 2.6% for nonaccruals. Foresight Analytics reports that 90-day+ delinquencies continue to swell.

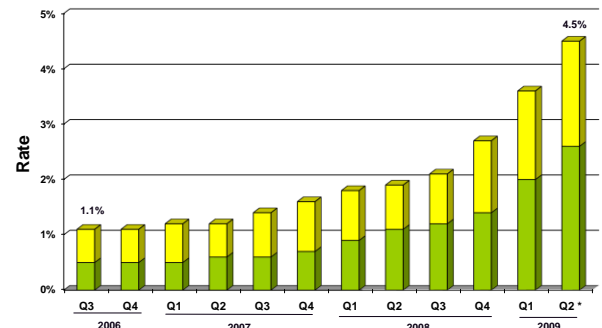
Total Delinquency and Nonaccrual Rates Residential Mortgages



Source: FDIC, Foresight Analytics, graphic by Delta Associates, August 2009. * Estimated

The commercial mortgage sector had an estimated 4.5% delinquency rate in the 2nd Quarter of 2009, compared to 2.7% at year-end 2008 compared to 1.9% in the 2nd Quarter of 2008. Again, nonaccruals are the main factor, accounting for more than half of total delinquency.

Total Delinquency and Nonaccrual Rates Commercial Mortgages



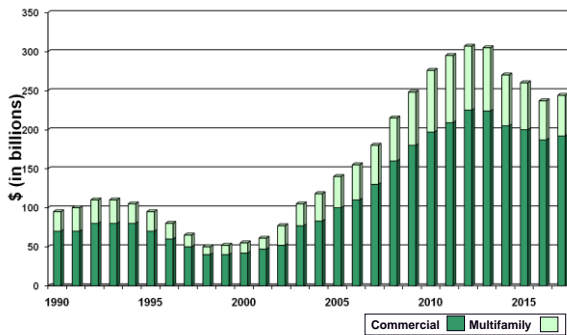
Source: FDIC, Foresight Analytics, graphic by Delta Associates, August 2009. * Estimated

Mortgage Defaults, Foreclosures, and Maturities Rising, Too

Real Estate Econometrics reports that the commercial mortgage default rate rose from 1.62% in the 4th quarter of 2008 to 2.25% in the first quarter of 2009, and it may reach 4.1% by the end of the year. Likewise, Foresight Analytics estimates that foreclosures were about 4.3% of the commercial mortgage value held by banks at mid-year 2009 – more than twice the mid-year 2008 figure – as reported recently by *National Real Estate Investor*.

In addition, there is a rising tide of maturing mortgages – some \$250 billion this year and more than \$300 billion per year in 2012 and 2013, according to data from Foresight Analytics. The weak economy, tight capital, and falling property values will undoubtedly combine to make refinancing these mortgages more difficult and costly.

Commercial and Multifamily Mortgage Maturities Loans Maturing by Year

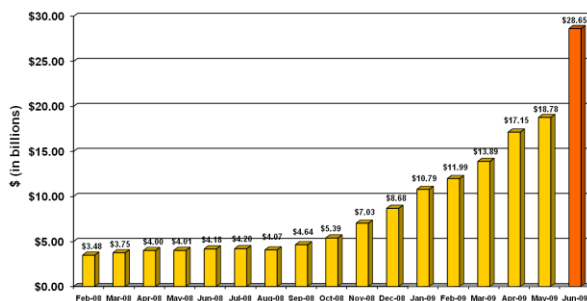


Source: Federal Reserve, Foresight Analytics; August 2009.

CMBS Delinquency: Rapid Growth

Realpoint Research reports that, from June 2008 to June 2009, the 12-month trailing delinquent unpaid balance of commercial mortgage backed securities (CMBS) rose by \$24.5 billion, or 585%, to \$28.7 billion. The delinquent balance is 3.5% of the total unpaid CMBS balance of \$817.4 billion.

Monthly CMBS Delinquency

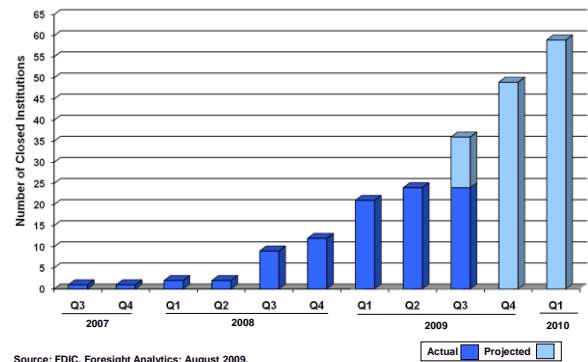


Source: Realpoint Research; August 2009.

More Bank Failures Ahead

The twin problems of rising delinquency rates and maturing mortgages point to a tougher environment ahead for banks. Bank failures have become increasingly frequent, with 25 in all of 2008 and 77 through mid-August 2009. Foresight Analytics projects more than 80 bank failures in the 3rd and 4th Quarters of 2009 and up to 60 more in the 1st Quarter of 2010.

Bank Failures Current Cycle and Near-term Forecast

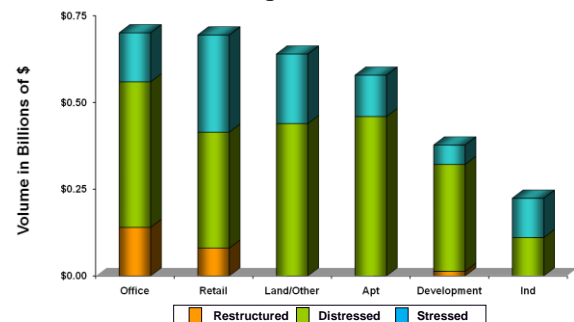


Source: FDIC, Foresight Analytics; August 2009.

Featured Metro: Chicago Moderate Distress Levels; Office and Retail Lead the Way

Chicago area office properties have a narrow lead in total volume over the retail sector, including the distressed, stressed, and restructured/extension categories. The retail sector is experiencing the highest volume of stressed properties.

Distressed Commercial Real Estate By Severity and Property Type Chicago Metro Area



Source: Real Capital Analytics, graphic by Delta Associates; August 2009.



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.

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, Blackwell Advisors, and Appian Corporation 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