

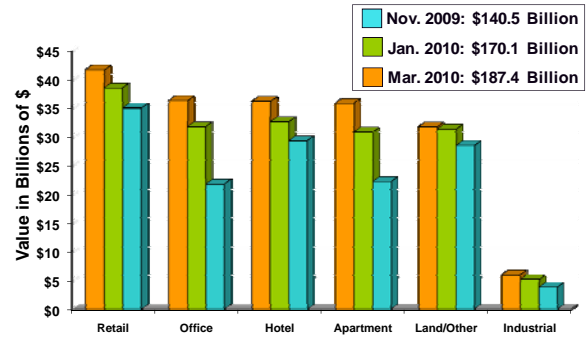
Distress: Cyclical Growth Continues

Nationally, the total value of **distressed commercial real estate** is \$187.4 billion, including properties in distress, foreclosure, and lender REO, according to data from Real Capital Analytics. This is an increase of 10% (\$17.3 billion) since our January report and 33% (\$46.9 billion) since November 2009. The rate of growth continues to slow, and is down from its peak during the first half of 2009 when the total value was doubling every three months. We believe that the continuation of this trend reflects the willingness of many lenders to extend debt obligations to traditionally qualified borrowers, with or without credit enhancement.

But the real test of velocity of distress will come this year and in 2011, as +/- \$600 billion in loans come due and experts predict up to 350 banks may fail.

As has been the case for the last few quarters, retail properties continue to be the largest segment of the distressed market, with \$41.7 billion, compared to \$38.5 billion in January. Notably, distressed apartment properties grew the most since January — by \$4.9 billion to \$35.8 billion, or a 14% increase.

**Change in U.S. Distressed Commercial Real Estate
November 2009 — March 2010**



Source: Real Capital Analytics, graphic by Delta Associates; March 2010.

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

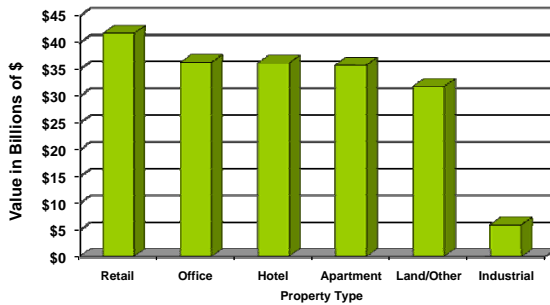
Once again, every product type recorded an increase.

- Apartment properties increased the most, up 14% to \$35.8 billion and into fourth place.
- Office properties rose markedly, as well, up 12.4% to \$36.2 billion overall.

Stressed Commercial Real Estate Assets

While the volume of distressed commercial real estate assets is significant, also consider the looming volume of **stressed** assets. These properties have characteristics of concern in the short term — maturing loans, bankrupt tenants, under-performance, financially troubled owners, or other significant obstacles that could potentially lead to distress in the future.

**U.S. Distressed Commercial Real Estate by Type
March 2010**

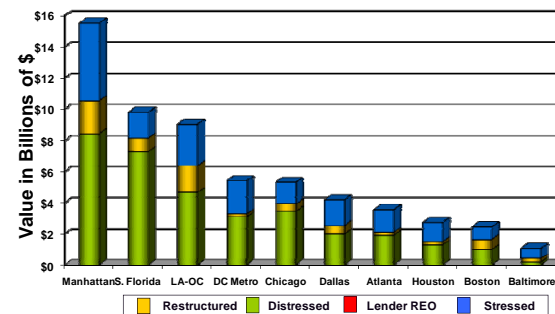


Source: Real Capital Analytics, graphic by Delta Associates; March 2010.

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

Watch for Volume 8 in this reporting series in June 2010. If you would like to subscribe free of charge, send your request to: David.Parham@DeltaAssociates.com.

**U.S. Stressed Commercial Real Estate by Market
March 2010**



Source: Real Capital Analytics, graphic by Delta Associates; March 2010.

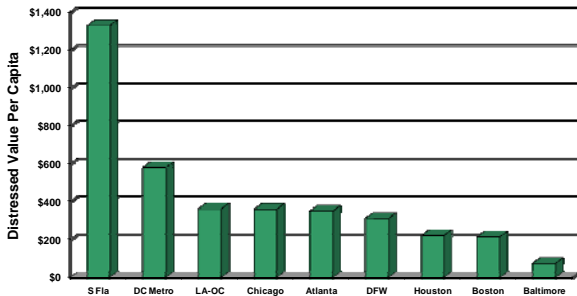
Note: Value based on loan amount.

The Manhattan market continues to have the highest distressed real estate asset volume (followed by South Florida). It also has \$5.0 billion in potentially distressed (what we call “stressed”) real estate assets as of March 2010. Turmoil in the capital markets, along with the housing slowdown,

continues to hamper the performance of existing assets and delay potential developments in Manhattan.

South Florida, with \$1,331 in distressed property per capita, has the highest ratio per capita besides Manhattan. As in January, the Washington, DC area market has the next highest at \$581 per capita.

**Distressed Commercial Real Estate Value Per Capita
March 2010**

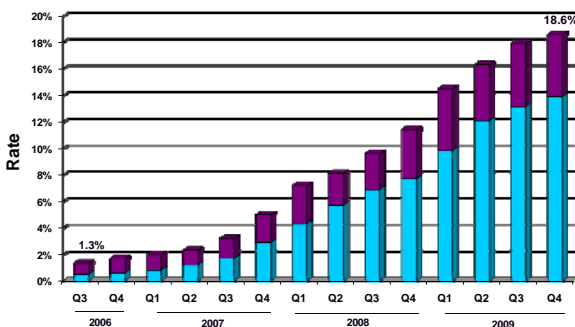


Source: Real Capital Analytics, graphic by Delta Associates; March 2010. Note: Excludes Manhattan at \$5,142 per capita. Includes properties in default or foreclosure, and lender REO. Value based on loan amount.

Delinquency Rates: Edging Higher

While single-family and condo loans account for most of the delinquency problems with construction loans, estimates indicate that delinquency rates for apartments and non-residential commercial properties continue to rise as well, according to Foresight Analytics. The delinquency rate has risen steadily over the past two years from 5.0% in the 4th Quarter of 2007 to 18.6% in the 4th Quarter of 2009. The non-accrual rate, which rose from 2.9% to 13.9% in the same period, is the main driver for the increase in total delinquency.

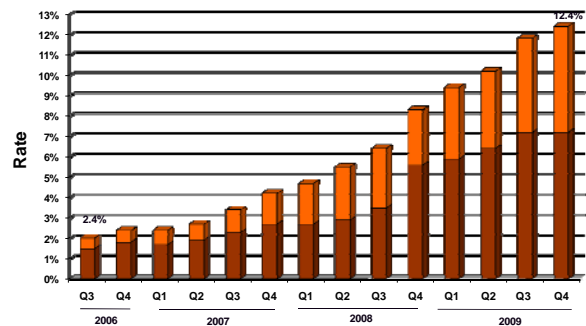
**Total Delinquency and Nonaccrual Rates
Construction Loans**



Source: FDIC, Foresight Analytics, graphic by Delta Associates; March 2010.

In the first-lien single-family mortgage sector, total delinquency grew to 12.4% in the 4th Quarter of 2009, with a 5.2% nonaccrual rate — 0.6% more than in the 3rd Quarter and another new high for the rate since 1992. In comparison, total delinquency was 8.3% in the 4th Quarter of 2008, with 2.7% for nonaccruals. The sustained rise in nonaccruals indicates that lenders are continuing to classify serious delinquencies as nonaccrual rather than making concessions to borrowers on the most substantial loan modifications.

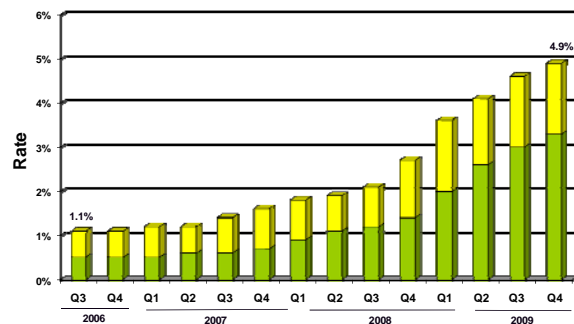
**Total Delinquency and Nonaccrual Rates
Residential Mortgages**



Source: FDIC, Foresight Analytics, graphic by Delta Associates; March 2010.

The commercial mortgage sector's total delinquency rate grew to 4.9% in the 4th Quarter of 2009, compared to 4.6% in the 3rd Quarter and 2.7% one year ago. Again, a 3.3% non-accrual rate is the main factor contributing to overall growth, accounting for 67% of the total delinquency. In comparison, the 4th Quarter 2008 non-accrual rate was 1.4%.

**Total Delinquency and Nonaccrual Rates
Commercial Mortgages**

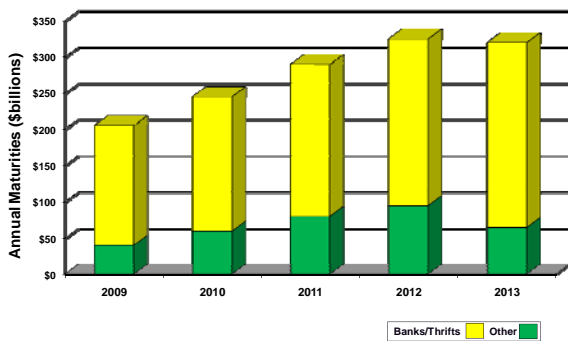


Source: FDIC, Foresight Analytics, graphic by Delta Associates; March 2010.

Mortgage Defaults and Maturities Rising

The commercial mortgage default rate rose to 3.8% in the fourth quarter of 2009, compared to 1.6% the previous year, according to Real Capital Analytics. It may reach 5.1% by the end of 2010 and 5.4% by year-end 2011. In addition, the total volume of commercial mortgage maturities continues to increase — rising to approximately \$275 billion in 2010, and more than \$300 billion per year in 2012 and 2013, according to data from Deutsche Bank and other sources. More than 80% of the commercial mortgages that will mature in the next two years are held by banks. Refinancing these maturing mortgages remains difficult due to the weak economy, tight capital, falling property values, and new mortgage originations.

Maturing Commercial Mortgages Held by Banks

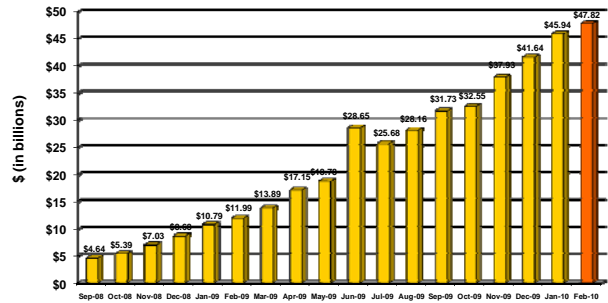


Source: Deutsche Bank; March 2010.

CMBS Delinquency: Continued Growth

Realpoint Research reports that, from February 2009 to February 2010, the trailing 12-month delinquent unpaid balance of commercial mortgage-backed securities (CMBS) rose by \$35.8 billion, or 299%, to \$47.8 billion. Currently, the delinquent balance is 6.0% of the total unpaid CMBS balance of \$797.1 billion, up from 3.9% of the total unpaid balance six months ago. Both the delinquent unpaid balance and the delinquency percentage continued their cyclical rise in January, reflecting a steady increase from historic lows at the peak of the market in mid-2007.

Monthly CMBS Delinquency



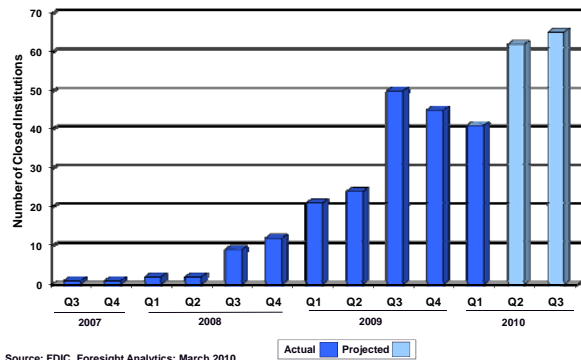
Source: Realpoint Research; March 2010.

Realpoint Research currently projects that the recent trend will continue and that delinquent unpaid CMBS balance will increase to between \$60 and \$70 billion, with a delinquency ratio of between 8% and 9%, by the middle of 2010. The delinquency ratio could approach 11% to 12% by the end of the year.

Bank Failures Easing?

The number of bank failures fell during the 4th quarter of 2009 and the 1st quarter of 2010 – the first quarterly declines in more than two years. With delinquency rates and mortgage maturities still rising, however, we expect the banking environment to remain challenging. Foresight Analytics' most recent projections show about 125 additional bank failures in the 2nd and 3rd quarters of 2010.

Bank Failures Current Cycle and Near-term Forecast

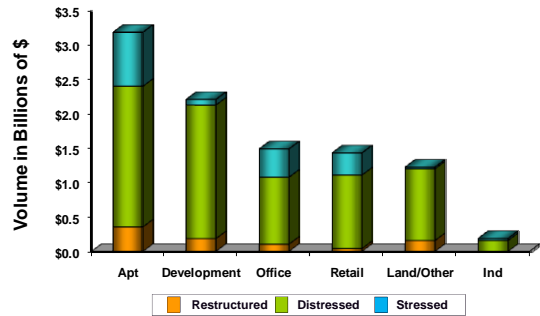


Source: FDIC, Foresight Analytics; March 2010.

Featured Metro: Miami / South Florida
Distress Levels High; Apartments Lead the Way

The volume of distressed properties in the Miami / South Florida area continues to rise and it remains the second-highest volume among the markets that we survey. Apartment properties are a majority of the distressed and stressed volume in Miami / South Florida, with a substantial lead in total volume over the Development sector. However, the Development sector's total distressed volume is not far behind that of the Apartment sector. The volume of distressed assets in the Miami / South Florida area exceeds \$7.2 billion, while stressed assets have risen to just over \$1.6 billion thanks to several sizeable loans approaching maturity.

**Distressed Commercial Real Estate
 By Severity and Property Type
 Miami / South Florida Area**



Source: Real Capital Analytics, graphic by Delta Associates; March 2010.

FOCUS ON THE WASHINGTON METRO AREA

On April 7, 2010, Greg Leisch, Delta's CEO, spoke to the chief administrative officers of the Washington Council of Governments (WashCOG) about distressed commercial real estate in the region. To download his remarks and PowerPoint slides, click on this link: to <http://www.deltaassociates.com/documents/WCOGSlideShow-FINAL.pdf>.



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:

www.DeltaAssociates.com

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Distressed Asset Recovery Team



Delta Associates has partnered with Baker Tilly, 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