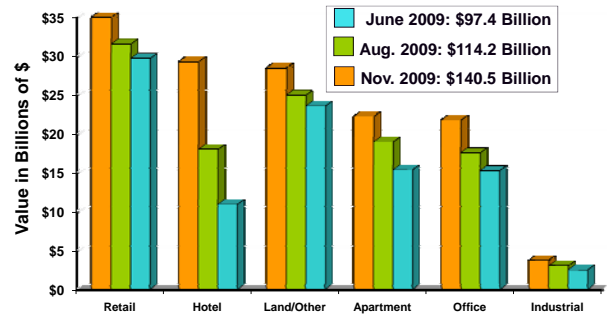


Distress: Slower Rate of Growth Continues

Nationally, the total value of **distressed commercial real estate** is \$140.5 billion, including properties in distress, foreclosure, and lender REO, according to data from Real Capital Analytics. This is an increase of 23% (\$26.3 billion) since our August report and 44% (\$43.1 billion) since June. The 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 are still the largest segment with \$35.0 billion, compared to \$31.6 billion in August. Distressed hotel properties grew by \$11.3 billion since August to \$29.3 billion — a 63% increase.

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

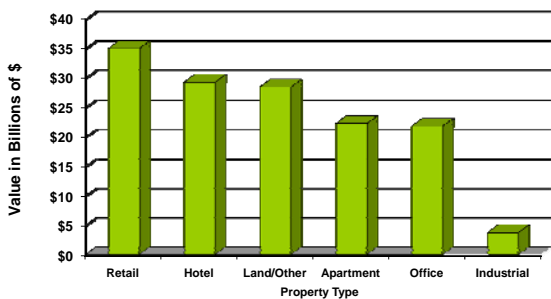


Source: Real Capital Analytics, graphic by Delta Associates; November 2009. Note: Includes properties in default or foreclosure, plus lender REO.

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. Distressed Commercial Real Estate by Type November 2009



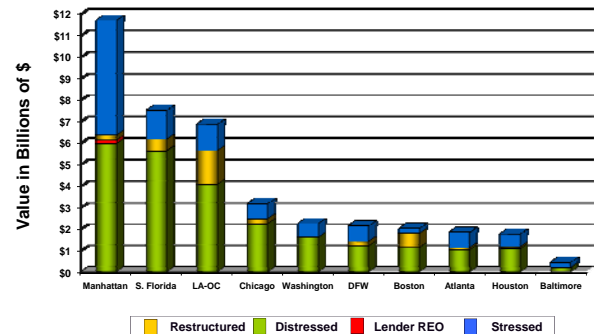
Source: Real Capital Analytics, graphic by Delta Associates; November 2009. Note: Includes properties in default or foreclosure, plus lender REO.

Every product type recorded an increase.

- Once again, hotel properties increased the most, up 63% to \$29.3 billion and into second place.
- Land/Other is close behind with \$28.5 billion, up 14%.

Watch for Volume 5 in this reporting series in January 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 November 2009

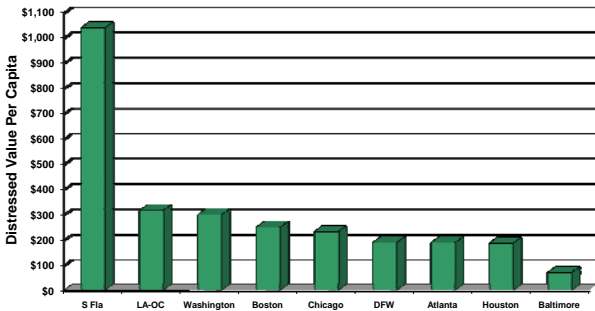


Source: Real Capital Analytics, graphic by Delta Associates; November 2009. Note: Value based on loan amount.

The Manhattan market has the highest volume of distressed real estate assets (followed by South Florida), and it also has \$5.3 billion in potentially distressed (what we call “stressed”) real estate assets as of November 2009. Turmoil in the financial industry, coupled with the housing slowdown, has threatened the performance of many buildings and potential developments.

South Florida, with \$1,040 in distressed property per capita, has the highest ratio per capita. The Los Angeles-Orange County market, which we have featured in this issue, has the next highest at \$316 per capita.

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



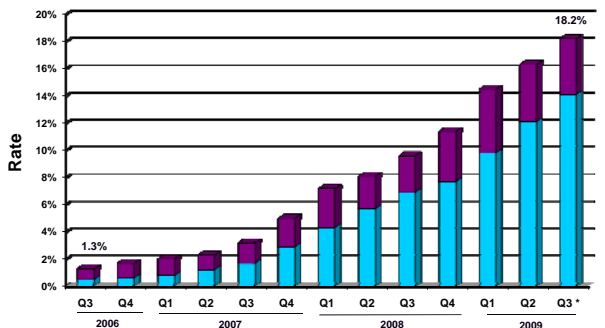
Source: Real Capital Analytics, graphic by Delta Associates; November 2009.

Note: Excludes Manhattan at \$3,742 per capita. Includes properties in default or foreclosure, and tender 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 seven quarters, from 7.2% in the 1st Quarter of 2008 to an estimated 18.2% in the 3rd Quarter of 2009. The non-accrual rate, which rose from 4.3% to 14.1% in the same period, is largely responsible for the increase in total delinquency.

**Total Delinquency and Nonaccrual Rates
Construction Loans**



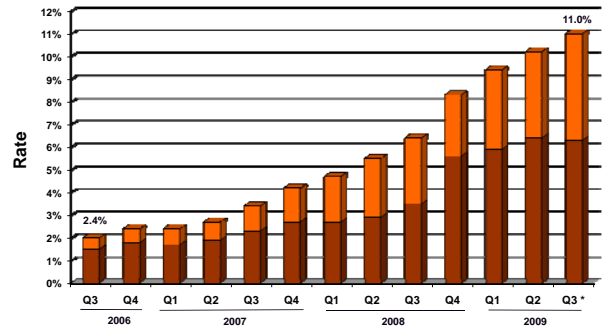
Source: FDIC, Foresight Analytics, graphic by Delta Associates; November 2009.

Legend: Nonaccruals (Cyan), Other (Purple)

* Estimated

In the first-lien single-family mortgage sector, total delinquency grew to 11.0% in the 3rd Quarter, with a 4.7% nonaccrual rate — 0.9% more than in the 2nd Quarter and the highest rate since 1992. In comparison, total delinquency was 6.4% in the 3rd Quarter of 2008, with 2.9% for nonaccruals. The recent nonaccrual increase indicates that lenders are once again classifying serious delinquencies as nonaccrual, according to Foresight Analytics.

**Total Delinquency and Nonaccrual Rates
Residential Mortgages**



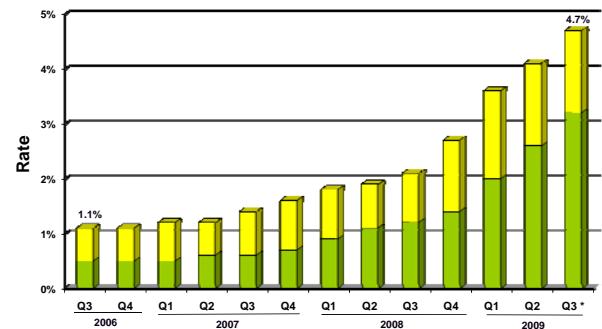
Source: FDIC, Foresight Analytics, graphic by Delta Associates; November 2009.

Legend: Nonaccruals (Dark Orange), Other (Light Orange)

* Estimated

The commercial mortgage sector had an estimated 4.7% delinquency rate in the 3rd Quarter of 2009, compared to 4.1% in the 2nd Quarter and 2.1% one year ago. Again, a 3.2% nonaccrual rate is the main factor, accounting for 68% of the total delinquency. In comparison, the 3rd Quarter 2008 nonaccrual rate was 1.2%.

**Total Delinquency and Nonaccrual Rates
Commercial Mortgages**



Source: FDIC, Foresight Analytics, graphic by Delta Associates; November 2009.

Legend: Nonaccruals (Green), Other (Yellow)

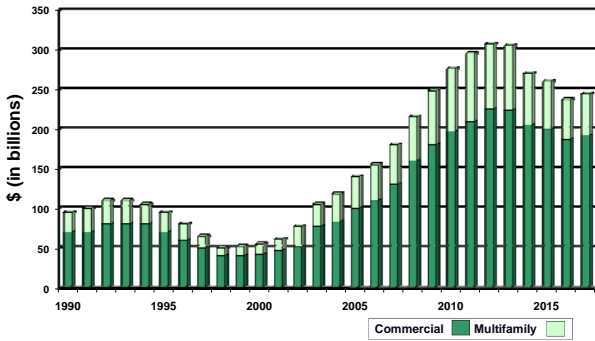
* Estimated

Mortgage Defaults and Maturities Rising

Real Estate Econometrics reports that the commercial mortgage default rate rose from 2.25% in the first quarter of 2009 to 2.88% in the 2nd Quarter, and it is projected to reach 4.2% by the end of 2009. Commercial mortgage defaults are particularly troublesome for small and medium-size banks, which are also struggling with residential mortgages and comprise most of the rising number of bank failures. Foresight Analytics estimates that these institutions hold some \$870 billion in commercial real estate mortgages, as reported recently in *Commercial Property Executive*.

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

Commercial and Multifamily Mortgage Maturities Loans Maturing by Year

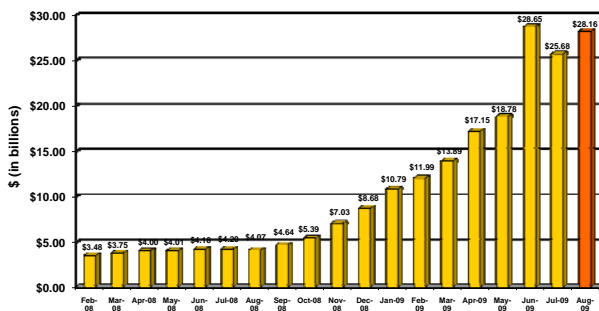


Source: Federal Reserve, Foresight Analytics; November 2009.

CMBS Delinquency: Rapid Growth

Realpoint Research reports that, from August 2008 to August 2009, the trailing 12-month delinquent unpaid balance of commercial mortgage-backed securities (CMBS) rose by \$24.1 billion, or 588%, to \$28.2 billion. The delinquent balance is 3.5% of the total unpaid CMBS balance of \$811.4 billion. The August delinquency follows a decline in July that resulted from almost \$4.8 billion in loans being declared current after they had been classified in default in June.

Monthly CMBS Delinquency



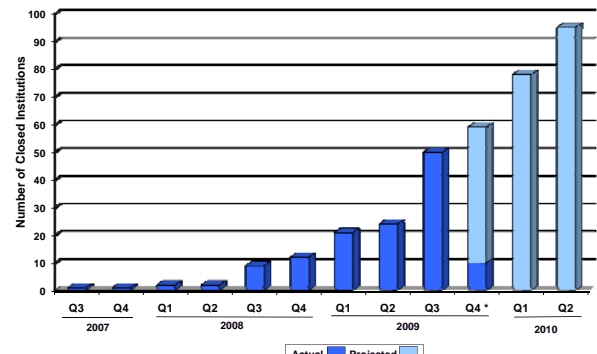
Source: Realpoint Research; November 2009.

Realpoint Research projects that the delinquent unpaid CMBS balance may reach almost \$50 billion, and a delinquency ratio of more than 6%, by the end of 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 100 through October 23, 2009. Foresight Analytics projects almost 60 bank failures in the 4th Quarter of 2009 and up to 175 more in the first half of 2010.

Bank Failures Current Cycle and Near-term Forecast

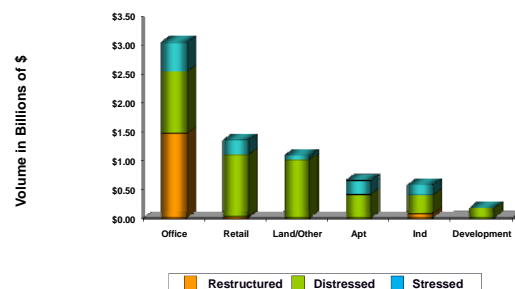


Source: FDIC, Foresight Analytics; November 2009. * As of 10/23/2009

Featured Metro: LA-Orange County Moderate Distress Levels; Office and Retail Lead the Way

Los Angeles-Orange County office properties have a wide lead in total volume over the retail sector, including the distressed, stressed, and restructured/extension categories. The retail sector has a very slight lead in the volume of distressed properties.

Distressed Commercial Real Estate By Severity and Property Type Los Angeles – Orange County



Source: Real Capital Analytics, graphic by Delta Associates; November 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