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BridgePointe Advisors is an Atlanta-based, nationally focused investment advisory firm with a proven track record of helping its clients successfully navigate the changing investment and capital markets.

### Capital Availability

- Fixed Rate Permanent
- Interim Bridge
- Construction
- Mezzanine
- Preferred Equity
- Joint Venture Capital

All above capital is non-recourse.

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**[Not So] Great Expectations:** With any change in a market there is a lag time between the fundamental shift and tangible execution of newly minted transactions. In the meantime, expectations are the biggest nemesis to business getting done. Until the market realizes the change, buyer/seller and lender/borrower gaps will be large and transaction volume will be slow. Our advice: internalize the fact that the market is different and returns of the past few years were not high enough and act accordingly. This may mean less business for the next few quarters, but prudent success beyond.

### Capital

Given the changes in the debt markets, strategic capital engineering to achieve maximum control and profit potential has never been more important. In this market it is essential to work with a group such as BPA with deep market-wide relationships and structuring expertise.

**Fixed Rate Debt:** Spreads have tightened significantly below 200 bps on 10 year money. We are currently seeing spreads in the 175 range for 80% LTV transactions and lower for large, lower leverage transactions. Many Life and Balance Sheet lenders have taken advantage of the slowdown in the CMBS and have become quite busy. The most encouraging news is that many shops are re-entering the market and lenders are now confident in delivering quotes; some shops are even starting to talk about limited interest only periods. As such, there is significant reason to see near

6% 10 year debt as being attainable (for fundamentally sound transactions).

**Structured Finance:** Non-recourse bridge and construction financing has seen the most fundamental correction in the market. The loss of the CDO liquidity facilities has caused at least a 100 basis point correction up in pricing. In addition, loan proceeds have been reduced due to cap rate concerns via exit, and high quality sponsorship is a must. The high quality strong deals with good sponsorship and good NOI yields will get done albeit at higher pricing. The marginal borrower will have difficulty getting financing in this market.

**Junior Debt and Equity:** Due to the higher loan costs and more conservative underwriting standards, deals are requiring more equity. On a positive note, there are ample capital sources and the market for equity is intact with little effect to pricing. However, underwriting is more conservative regarding exit cap rate concerns and some investors have a growing bias towards repositions over new construction. Investors are very busy and getting their attention is somewhat difficult. Mezzanine pricing has seen some upward movement.

### Current Rates & Indices

30 Day LIBOR	5.045%
90 Day LIBOR	5.21%
5 YR Treasury	4.36%
10 YR Treasury	4.66%
10 YR Swap	63.0
US Prime	7.75%

## Key Stock Market Indices Pertinent to the Real Estate Market - 11/06/07

	% Change	
	1 month	26 week
<b>Broader Market Indices</b>		
S&P 500	-3.19	1.74
Dow Jones	-2.86	-0.29
S&P Retail Index	-11.59	-16.80
<b>Real Estate &amp; Retail Related Exchange Traded Funds</b>		
Ishares Cohen & Steers Realty Index Fund ETF	-10.94	-14.97
Ishares Dow Jones US Real Estate Index ETF	-10.29	-16.81
ProShares Ultra Short Real Estate ETF	23.70	31.39
SPDR DJ Wilshire REIT ETF	-10.64	-15.64
Vanguard REIT ETF	-10.17	-14.71
Ishares DJ US Home Construction Index ETF	-10.75	-46.52
SPDR S&P Homebuilders ETF	-8.66	-40.03
Power Shares Building & Construction Portfolio ETF	-7.91	-1.90
HOLDRS Retail ETF	-6.58	-9.59
Power Shares Dynamic Retail Portfolio ETF	-8.93	-16.39
SPDR S&P Retail ETF	-11.49	-17.13
<b>Retailer Sector Indices</b>		
Apparel	-9.52	-19.35
Auto Parts	-2.63	-15.90
Department Stores	-11.27	-24.68
Discounter - Variety Stores	-5.79	-4.15
Drug Stores	-0.04	-2.18
Electronic Stores	-4.83	-1.86
Grocers	-0.06	0.13
Home Furnishings	-13.86	-27.46
Home Improvement	-13.53	-24.57
Specialty	-3.99	-16.14
Sporting Goods	-12.33	-9.05
Toys & Hobby	-11.44	-42.94
<b>REIT Sectors</b>		
Diversified / Industrial	-4.71	-8.76
Healthcare	-9.78	-8.45
Hotel	-8.06	-13.86
Office	-10.68	-17.88
Residential	-12.70	-13.82
Retail	-10.54	-14.19

## Joint Ventures and Investment Sales

**Joint Ventures:** Look for the volume of joint venture transactions to increase as smaller or mid-size developers bring in active development and / or capital partners (especially on larger projects) in order to secure the required financing and increased equity requirements. Development partners with capital know the value they bring to the table in this market. In that regard, sponsors looking for a joint venture partner will need to be prepared to be more flexible on their expectations. Regardless, there are strategies that sponsors can employ to maximize their position. With the increased difficulty and cost of the “ground up” development process, look for more joint ventures to occur on redevelopment opportunities.

**Investment Sales:** The investment market continues to see a significant pricing bifurcation between Institutional Core Class A assets in major markets and Class B/C assets in secondary and tertiary markets. For Class A assets that provide durable cash flows, cap. rates have not increased significantly and to some extent have compressed in the last month. However, Class B / C assets have seen increased cap. rate pressure and random bidding given more conservative investor underwriting and expectations. While the current debt market situation has reduced the aggressiveness of private market investors utilizing 10 year I/O financing, Institutional and to an extent, Offshore Investors, are filling the void. Assets with attractive existing debt will trade at a premium in today’s market.

**Conclusion:** “What makes this cycle different is that the commercial real estate market has become much more efficient and as such capital will continue to flow back to niches where the risk adjusted returns have increased beyond comparable investments. In that regard, market volatility and disequilibrium should abate more quickly than in the past as new capital and investment sources enter the market to fill a void or chase yield.”