

SMITH-TRG

H.A.V.S.

‘Hidden-Asset Value Solutions’

For The Commercial Real-Estate Sector

SMITH-TRG Executive Briefing

By: Richard D. Smith, President
2008 REITs Presentation

H.A.V.S.

Is A Proprietary SMITH-TRG Service

We work exclusively with real-estate holders - investors/owners.

We work collaboratively with clients on select engagements – high mutual confidentiality.

About H.A.V.S. Service

- **Helps Identify Eligible Non or Under-Performing Commercial Real-Estate Related Assets**
- **Helps Convert Those Assets Into Recurring Revenue**
- **Helps Re-Classify or Monetize Those Assets**
- **Helps Build Portfolio of New Value**

SMITH-TRG Objective....Create 'New' & Continuous Value.

H.A.V.S. Qualified Properties?

- Office Buildings
- Shopping Malls (*Mega or Regional*)
- Strip Malls (*Regional or Community*)
- City Center Developments
- Hotels/Resorts/Golf Courses
- Sport Stadiums (*Pro & Collegiate Venues*)
- Entertainment Complexes
- Big Box Retailers
- Retail Chains (*National/Regional*)
- Undeveloped Land
- Mass Transit Systems
- Parking Lots (*Covered Structures or Open*)

H.A.V.S. To-Date Experience

**Surveyed 1,000 Qualified Properties in...
Greater Baltimore/Washington Market –
99.8% Classified as H.A.V.S. Eligible**

**Identified/Developed Additional Asset Value
– Results Varied by Client, Real-Estate Asset
Type, Size & Location. See Range Below:**

10 cents per sq. ft. per month

50 cents per sq. ft. per month

\$2.00 per sq. ft. per month

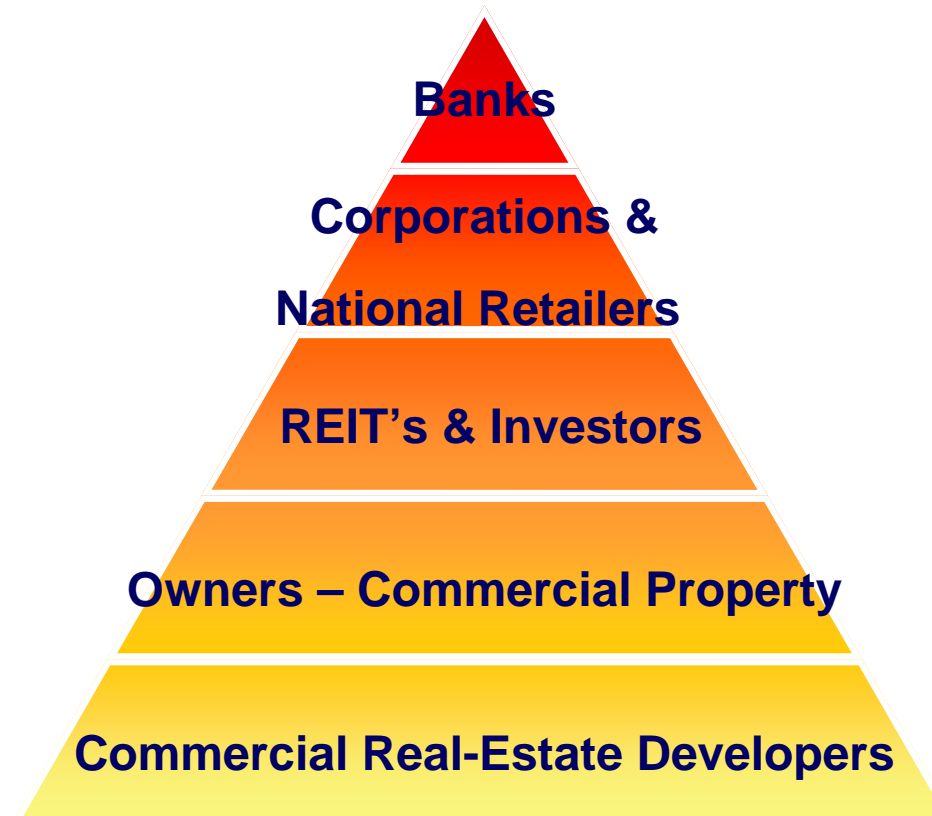
\$5.00 per sq. ft. per month



SMITH-TRG Results Objectives Achieved...

Created for Clients - 'New' Source of Continuous Business Value.

Who Realizes Value From H.A.V.S.?



Why H.A.V.S. Now?

Commercial Markets Securities Association

(January 2008 Investors Conference)

- Lackluster Market Situation
 - Growing Threat of Defaults & Delinquencies
 - Overbuilding & High Vacancy Rates
 - Commercial Real-Estate Fundamentals
 - Expected Lower Returns
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Growing Retail Sector Risks – Lease Terminations

For more details see six slides after presentation end slide.

Why H.A.V.S. Now? Continued...

Trouble in REITs

<u>Company:</u>	<u>1/18/08</u>	<u>Off High</u>	<u>'08 Change</u>
<i>General Growth Prop.</i>	\$32.86	-51.3%	-20.2%
<i>Duke Realty</i>	\$21.34	-55.9%	-18.2%
<i>Macerich</i>	\$58.9	-43.1%	-17.1%
<i>Kimco Realty</i>	\$30.70	-42.7%	-15.7%
<i>Mack-Cali Realty</i>	\$29.30	-48.2%	-13.8%
<hr/>			
iShares Cohen & Steers Realty Majors Index	\$70.53	-39.1%	-10.9%

Why H.A.V.S. Now? Continued...

Real-Estate Sector Statistics

Categories: CMBS & ABS

Market Size \$650B & \$600B

Delinquencies 6.4% & 24.5%

LTV 69% & 80%

Loan Size \$15.8M & \$185,000

Loan Term 10 years & 30 years

Holders Most Interested in H.A.V.S.?

Owners/Investors

Property (s) In Default

Trending Toward Delinquency

Overbuilt Market

Tenant Shortage/Growing Vacancy Rates

Need To Create Added-Value To Secure Tenants

Have Operational Assets Local, Regional, Nation-Wide

Top 50 MSA's to Small Communities

Local Real-Estate Fundamentals at Risk

Growing Economic & Employment Issues

H.A.V.S. Serves the Needs of Small & Large Portfolios...

SMITH-TRG

Contact SMITH-TRG Today.

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SMITH-TRG is a business advisory firm that specializes in business value creation. As 'Trusted-Advisors' we guide clients through analysis, strategy, implementation, and business performance improvement results. We provide critical insight, creative solutions, and continuous value.

SMITH-TRG offers clients a wealth of diverse knowledge and direct experience in commercial real-estate; media and entertainment; manufacturing, distribution and retail; and technology industries world-wide.

Why H.A.V.S. Now? Today's Lackluster Market Situation...

The Commercial Mortgage Securities Association held its annual Investors Conference last week in South Beach, Fla., at a particularly precarious moment. Credit markets remain locked up, which has turned the previous deluge of CMBS issuance into a drizzle. As a result, there are deeply dampened expectations for CMBS issuance for 2008. Meanwhile, talk of which--if any--commercial real estate sector might go the way of the residential market clearly had some attendees worried.

The mood was in stark contrast to one year ago. The CMBS industry closed 2006 with \$297.8 billion in CMBS issuance (\$202.6 billion in the U.S.) and \$39.8 billion in CDO issuance, according to *Commercial Mortgage Alert*. Expectations were that CMBS issuance in 2007 would approach \$363 billion, including \$245 billion in the U.S. (a figure calculated by averaging the predictions of 14 analysts and experts). That pace held up for much of the year and, in fact, 2007 issuance did exceed 2006, but did not quite live up to the lofty expectations. In the end, CMBS originators finished 2007 with \$314.7 billion in new CMBS issuance (with much of that coming in the first three quarters) and \$39.3 billion in CDO issuance.

Now, expectations are that the CMBS market will remain lackluster well into 2008. The same pool of experts and analysts surveyed by Commercial Mortgage Alert expects issuance to drop in half from 2007's levels down to \$158 billion overall and \$113 billion in the U.S.

Why? Growing Threat of Defaults & Delinquencies

New issuance is not the only thing the industry has to worry about in 2008. There is a concern about the overall state of commercial real estate and whether a prolonged slump in housing will damage the prospects of other sectors. While most expect the U.S. economy to avoid a recession with GDP growth slowing to between 1 percent and 2 percent this year, many have not ruled out the prospect of a downturn entirely. *Any downturn in commercial real estate fundamentals could cause an increase in defaults and delinquencies in existing CMBS pools, which, for now, remain near record lows.*

A panel of real estate economists debated the prospects of the major sectors and came away with some very disparate conclusions. The baseline for all three economists, Jon Southard, chief economist, CBRE/Torto Wheaton Research; Sam Chandan, chief economist, Reis Inc.; and Len Mills, director of debt research and risk management, Property and Portfolio Research (PPR), was that the U.S. would avoid a recession. Still, they foresaw that a slowdown would have a devastating effect on some sectors--primarily lodging. Interestingly, the economists also had widely divergent retail views.

Why? Overbuilding & Higher Vacancy Rates

PPR bases its figure on an aggregate accounting of construction in 54 markets it monitors, in addition to information from Reed Construction Data. *PPR's figures show that 145 million square feet of new retail space was delivered in 2007--which is more than 30 percent higher than the historical average of 106 million square feet added each year since 1982. This year it expects another 122 million square feet to be added.*

A lot of the new development activity has been in areas where new housing has come online, but in many cases, the new housing is vacant because of the downturn in the residential market. *Newer centers are seeing higher vacancy rates than properties that opened in earlier years and are taking longer to lease up.*

Economists agreed that a downturn in commercial real estate would not mirror the fall in the residential sector because of several important factors. For one, there are no low-documentation or no-documentation loans in the commercial sector as there are in residential. Such loans, in which borrowers can be approved with limited or no information provided on their financial health, have been one of the biggest reasons for the defaults and delinquencies on the residential side.

Commercial real estate loans are much more highly scrutinized. Lenders and rating agencies can peruse every loan in a CMBS pool, which they don't do on the residential side. Delinquencies on commercial real estate loans are nowhere near the levels in the residential space.

Why? Commercial Real-Estate Fundamentals

Another point in retail's favor, he said, was the fact that the sector has long-term leases. That provides stability that some other sectors won't share and means it would take longer for a downturn in rents to negatively affect the sector.

Chandan agreed with that assessment, but still had concerns about the health of CMBS that could suffer even if commercial real estate fundamentals continue to grow. "There is a question in that the assumed growth in the underwriting of some CMBS is too aggressive and that will pressure the mortgages," he said. Some loans may be too aggressive in the loan-to-value ratios and have mortgages based on seriously escalating incomes, which may not materialize. And that could lead to defaults, even if growth doesn't turn negative.

Chandan also thought retail would remain stable, pointing out that huge increases in materials prices in recent years kept development in check. According to Reis's figures, the retail sector completions in 2007 were below 30 million square feet--less than half the pace of development in the 1980s when deliveries exceeded 50 million square feet a year.

Why? Expected Lower Returns

Southard expects commercial real estate to deliver annual average total returns of 7 percent. That's below the average 13 percent return seen over the past five years. The big change, he said, is that the returns over the past five years have been largely due to cap rate compression and rising property values and not a result of growing net occupancy income. *"With vacancies down and construction in check, we expect income growth and no cap rate compression. As a result, the returns will be less, but the important thing is that they will still be positive," Southard said.*

Why? Growing Retail Sector Risk – Lease Terminations

December 07 Retail Results *(Same-Store-Sales)*

Wal-Mart Up 2.4% & Best Buy Up 3.5%

Dillard's Fell 5%

Macy's Fell 7.9%

Circuit City Fell 3.5%+

Sears/K-Mart Fell 3.5%

JC Penny Fell 4.5%

Limited Brands Fell 8%

Ann Taylor Fell 9.4%

Hot Topic's Fell 12.2%

Gap Fell 6%

Abercrombie & Fitch Fell 2%

Chico's Fell 5.6%/ White House/Black Market Fell 13.7%

Cato Fell 6%

Sharper Image Fell 13%