

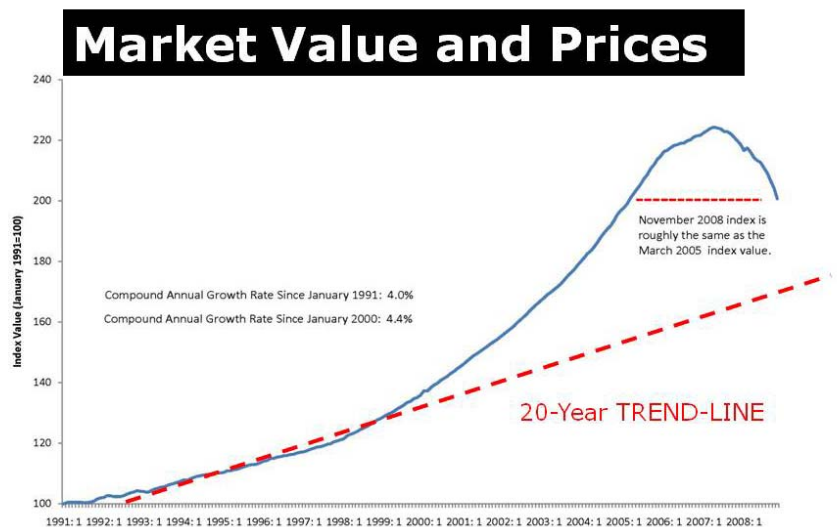
## LENDER FINANCING/WORKOUTS: THE DANGER NOW IS BEING OVERLY-CONSERVATIVE

### Current Market Value of Commercial Property Loan Portfolios

Be careful about estimating the market value of commercial real estate (CRE) loan portfolios. The concepts of “market value” and “pricing” are being tested today as never before. Our first perceptions may not be accurate. While frequent news reports and industry analysts’ opinions are telling us that CRE values are facing an unprecedented crisis, we do not believe this to be the case.

Pricing does not always reflect market value. Just as the speculative pricing in the real estate markets during 2006 and 2007 did not reflect the longer-term market value, the depressed prices of 2009 do not reflect long-term market values.

The reason for this discrepancy is the time-frame being used in these news reports and pundits’ opinions. The time-frame is too short. For example, the MIT Center for Real Estate, which coordinates the data for Moody’s Commercial Price Index shows the index beginning in 2001 as the base year, essentially giving a 10-year price-trend. This 10-year price trend places an under-emphasis on the upward speculative phase of CRE prices in 2006 and 2007 and at the same time over-emphasizes the recent fall in prices in 2009. When this same index is compared to a longer-term property price index that began in 1990, commercial real estate prices in the U.S. still show a compound gain of 4% per year up to 2009 (see graph). In other words, the long-term price trend over a 20-year period shows no loss in commercial real estate market values.



Just as the speculative highs of 2006 and 2007 did not reflect sustainable property values, any temporary pricing points in 2010 below this trend-line will not reflect long-term commercial real estate investment potential and sustainability. Yes, today’s commercial property prices are off from their speculative highs. But, they are not below the normal price movement.

Sales comparisons, capitalization rates and time-adjustments drawn solely from transactions that closed in 2008 and 2009 do not accurately reflect the longer-term trend in commercial market values. 2010 appraisal values based on this short-sighted analysis will be artificially low, showing a loan portfolio balance that is not accurate and under-valued. Market data should now be gathered from the period before the speculative years of 2006 and 2007 and trended to the long-term movement.

Real estate has always been considered a long-term asset and its market value should be viewed the same.