



REAL ESTATE PORTFOLIO TAKEOVER AND WORKOUT CAPABILITIES

Evolving market conditions, restricted access to capital resources, manager organizational changes, disappointing returns, shrinking cash flows, falling property values, and a myriad of other factors may at one time or another force Trustees to make difficult decisions regarding their real estate portfolios.

AMERICAN'S COMPETITIVE ADVANTAGES

- ▶ Over 22 years of experience
- ▶ \$3.3 billion in institutional assets under management*
- ▶ Demonstrated ability to increase cash flow and to add value
- ▶ Proven track record of successful transitioning and restructuring of underperforming assets
- ▶ Expertise in identifying and exploiting asset opportunities through strategic planning and implementation
- ▶ Direct involvement of American's senior management with lenders and partners



AMERICAN REALTY ADVISORS® is a national real estate investment advisor providing effective real estate management solutions to institutional investors throughout the U.S.

With 50 employees, and principal offices located in Los Angeles, Chicago and Atlanta, American manages private real estate related equity and debt investments and brings over 22 years of experience of creating and implementing innovative investment strategies across the return/risk spectrum. American is a registered investment advisor with the Securities and Exchange Commission (SEC) and has qualified as a Qualified Professional Asset Manager (QPAM), investment manager and fiduciary under ERISA.

In addition to traditional real estate investment management, American offers its tactical real estate expertise to institutional investors through its **TAKEOVER AND WORKOUT SERVICES**.

Institutional investors, such as pension funds, that have non-performing assets or other underperforming commercial properties can take advantage of American's demonstrated ability to quickly assume management responsibilities for takeover assets and to implement effective solutions to realize value and produce superior returns.

AMERICAN REALTY ADVISORS' EXPERTISE

American has been hired on 18 occasions to take over the asset management responsibilities for individual assets or portfolios of properties, loans, joint ventures, or other real estate investments, including in some cases replacing a general partner (or managing member) of single entities or funds to operate and manage the ownership.

Our takeover experience encompasses over \$1 billion of real estate related equity and debt transactions and American has added value in each of these assignments. As evidence of our success in serving our clients in this capacity, we have been allocated new investment capital by a number of these clients with ongoing real estate investment programs.

American specializes in resolving such asset issues as:

- ▶ low occupancy rates or below market rents
- ▶ inadequate debt servicing capabilities or high operating expenses
- ▶ deferred maintenance and/or physical/structural issues
- ▶ ineffective marketing strategies and weak tenant composition
- ▶ functional/economic obsolescence or location and market deficiencies
- ▶ ill-perceived project image and inadequate property management
- ▶ incomplete capital projects

ASSET ADVISORY / PORTFOLIO TAKEOVER SERVICES

Our asset and portfolio advisory and takeover services include:

- ▶ planning and implementation of value optimization for equity real estate investments, including single assets and large portfolios; and
- ▶ workout and stabilization of underperforming or non-performing senior and subordinate debt investments as well as joint venture structures.

THE TAKEOVER ASSIGNMENT

We quickly assess the operating status of each asset in the portfolio under current and future market conditions through comprehensive market and property analysis.

Each asset is unique, with different challenges and opportunities, and is treated as an individual operating business. Developing a successful asset enhancement strategy requires more than just determining whether to sell or retain ownership of an asset. We identify all underlying problems and evaluate the solutions in the context of the property's ultimate potential value, rather than providing temporary "band-aid" solutions to the obvious symptoms.

In order to accomplish this, it is essential to understand every aspect of the operations of the real estate asset. Each operational function is isolated and examined to determine the problem areas, and ultimately, viable and practical solutions are developed that work well not only within the context of the surrounding market but also in concert with those strategies already in place.

A tactical strategy is developed that encompasses a total review of the physical, economic, demographic and market factors impacting the asset. This comprehensive plan becomes the blueprint utilized to maximize value.

The approach includes an asset management strategy as well as an exit strategy designed to maximize the going-forward value based on the market and the objectives of the individual asset's workout strategy.

The components of our asset management strategy include the following in-depth evaluations and planning:

- ◆ **MARGINAL COST/ MARGINAL RETURN:** includes a cash flow analysis that determines an asset's current market value and its economic potential during each year of the anticipated holding period. The evaluation also quantifies the benefits to be derived from an economic rehabilitation or enhancement of the asset. This enhancement benefit is balanced against the cost of the enhancement, the amount of debt, and all other factors that will provide a detailed picture to support or reject such expenditure.

- ◆ **MARKETING AND LEASING PLAN:** creates a positive building image, attracts new tenants, and retains existing tenants. One of the biggest challenges that property owners face is creating and maintaining tenant demand for their properties. American provides the experience, creativity, resources, and tenacity to plan, modify, coordinate, and implement an effective marketing/leasing program that will maximize the value of each asset. This program is based on our ability to gather critical market data and properly interpret information in the context of the surrounding market in order to establish the most realistic marketing and leasing parameters.
- ◆ **MARKET EVALUATION:** analyzes effective market rents, as opposed to contract rents. We analyze all appropriate data for each property type to determine the actual cash flow to be derived from the asset.
- ◆ **INVESTMENT STRUCTURE EVALUATION:** determines the most feasible strategy to produce a positive economic return to the client.
- ◆ **LOCATION EVALUATION:** provides the necessary background information for developing an operating plan, fine-tuning a marketing strategy, setting competitive rental rates, and gaining knowledge of government restrictions such as zoning ordinances, pending changes for land use, and tax burdens.
- ◆ **PHYSICAL EVALUATION:** reveals structural or mechanical defects of the property, the extent and cost of any deferred maintenance, the project's capacity to support anticipated future uses of its existing tenant base, and the economic benefits to be derived from a full or partial physical rehabilitation.
- ◆ **TENANT EVALUATION:** determines the financial stability of all existing tenants and their ability to contribute to the asset's long-term viability, from both a rental and quality of life standpoint.
- ◆ **MANAGEMENT EVALUATION:** ensures that the property management staff is motivated to establish and maintain the highest level of tenant service, ethics, and economic efficiency in the short- and long-term operation of the property.
- ◆ **ENVIRONMENTAL EVALUATION:** consists of a Phase I Environmental Site Assessment confirming that no environmental issues impact the property.
- ◆ **BUDGET EVALUATION:** evaluates all pre-existing budgets to determine their cost-effectiveness and contribution to the property's overall performance.
- ◆ **TITLE ANALYSIS, SURVEY REVIEW AND OWNERSHIP RIGHTS REVIEW:** verifies the "bundle of rights" held by the investor.



The purpose of the workout strategy is two-fold: first, to give long-term direction on the recommended course of action for the asset; and second, to transform the recommended course of action into functional, short-term objectives with long-term implementation that will collectively produce the desired returns for our clients. The strategy is based on our pragmatic assessment of the asset's ultimate contribution to the overall portfolio, as well as the investment objectives of the client.

The results of our comprehensive asset evaluations are carefully reviewed, documented and presented to the client, in conjunction with a discussion of the economic feasibility of the property, the recommended plan of action, timeframes and costs associated with executing the strategy to completion, potential risks involved, and alternative options for consideration.

The workout strategy is prepared and implemented after consideration of the client's goals and objectives. It is the asset's "blueprint" through which value will be created and enhanced over the holding period with a clear strategy for resolution through restructuring, holding and disposition.



American was asked to take over a portfolio of properties on behalf of a pension fund that was dissatisfied with the investment process established by the prior manager as well as the performance of the assets.

After assuming takeover responsibility for the portfolio, American initiated its comprehensive transition program to transfer all financial, operational and reporting responsibilities for the assets. This process was completed within five days of the initial takeover.

In addition, new processes, procedures and a takeover plan for each asset were developed within a 30-day timeframe. Within 90 days of the takeover, a comprehensive valuation model was created and reported to the trustees, and the investment strategy for each of the assets in the portfolio was implemented. Within six months, progress on the investment strategies was reported back to the client, articulating which assets should be sold to maximize value, and which assets should be held to increase value.

Over the subsequent five-year time period, this pension fund (that initially indicated it did not want to invest additional capital in real estate because of previous poor experience) allocated additional capital to American for its real estate program. This was a direct result of the plan's comfort with the investment approach implemented by American.

Similar efforts have been initiated 17 other times on behalf of other pension plans that have engaged American to take over portfolios of real estate assets on their behalf.

Takeover portfolios require significant hands-on operational experience, the ability to quickly initiate financial, operational, and reporting transitions, and an unwavering commitment to clear and concise client communication. American Realty Advisors has significant takeover experience and has demonstrated its ability to execute successful workout strategies.

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**Assets under management represent gross value of all assets and accounts managed by American as of June 30, 2010 (excluding partners' share of equity and partners' share of debt on partnership investments).*

