

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 REALTY ADVISORS has provided innovative real estate investment solutions to institutional investors for over 19 years. Privately held and owned by its senior professionals, the firm is focused exclusively on providing premium real estate investment management services to its clients. American is a registered investment advisor with the Securities and Exchange Commission (SEC) and is a Qualified Professional Asset Manager (QPAM), investment manager and fiduciary under ERISA.

With over \$4.4 billion in assets under management*, American provides a full range of core and value-added real estate investment services to support a customized investment strategy for each of its clients.

In addition to traditional real estate investment management, American offers its tactical real estate expertise to clients through its **TAKEOVER AND WORKOUT** services. These services are provided to clients who have encountered investment manager organizational changes as well as potentially distressed, underperforming, neglected and mismanaged real estate. American has demonstrated its ability to quickly assume management responsibilities of takeover assets, thus minimizing disruptions to the client.

AMERICAN REALTY ADVISORS' EXPERTISE

American has been hired on 15 occasions to take over portfolios of properties from other managers. As evidence of our ability as a takeover manager, we have added value in each of these assignments and have been allocated new investment capital by those clients with ongoing real estate investment programs.

A DEMONSTRATED ABILITY TO INCREASE CASH FLOW and add value to underperforming real estate assets nationwide is the result of our highly recognized interdisciplinary capabilities.

WE BEGIN IDENTIFYING THE OPPORTUNITIES AND CONSTRAINTS presented by the property and incorporating these factors into a comprehensive strategic plan that includes capital planning, marketing and operations management.

OUR MANAGEMENT TEAM WORKS DIRECTLY ON THE PROPERTY SITE to identify and evaluate characteristics that typically signal the sub-standard performance of an asset. These characteristics include:

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



* Assets under management represent gross value of all assets and accounts managed by American as of June 30, 2007 (excluding partners' share of equity and partners' share of debt on partnership investments) plus approximately \$479 million in undrawn commitments..

ASSET ENHANCEMENT AND PORTFOLIO TAKEOVER

Our asset enhancement and portfolio takeover services include:

- ▶ value optimization for equity real estate investments, including single assets and large portfolios; and
- ▶ workout and stabilization of underperforming or nonperforming senior subordinate debt investments and joint venture structures

THE TAKEOVER ASSIGNMENT

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

Each property 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 any underlying problems and evaluate the solutions in the context of the property's ultimate 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 to work within the context of the surrounding market and 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, zoning ordinances, pending changes for land use, tax burdens, etc.
- ◆ **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 WORKOUT STRATEGY

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 objective of the client.

The results of our comprehensive property 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.

AN EXAMPLE OF AMERICAN REALTY ADVISORS' SUCCESS

American was asked to take over a portfolio of properties on behalf of a pension fund client who 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 remaining five-year time period, this client (who initially indicated they did not want to invest additional capital in real estate because of the previous poor experience) allocated additional capital to American for its real estate program. This was a direct result of the client's comfort with the investment approach implemented by American.

Similar efforts have been initiated 14 times on behalf of other clients who 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.

AMERICAN REALTY ADVISORS

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