

# CAPITAL MARKETS REVIEW

*Shopping Center Business* presents **Capital Markets Review** compiled by Gary Saykaly, Van Barron and H.L. Jackson III. Based in Atlanta, Saykaly and Barron are managing partners of BridgePointe Advisors. Jackson is director of the company's investment group. BridgePointe is an entity that creates wealth for its clients' real estate portfolios through innovative capital and investment solutions, including debt, equity, joint ventures and investment sales.

## Market Overview

This information was compiled by Gary T. Saykaly of BridgePointe Advisors.

### U.S. HOUSING MARKET OVERVIEW

BridgePointe Advisors had the opportunity to sit down with one of its strategic alliance partners, Jonathon Smoke of BlueSmoke, to discuss the state of the housing market. BlueSmoke is a residential consulting group that provides residential and mixed-use developers/builders with feasibility and design assessments via a very unique analysis process.

The overall U.S. housing market has been battered now for 33 months and shows no sign of likely improvement in 2008. The primary glimmer of hope for 2008 is that the bottom will be reached so that conditions do not get worse. Unfortunately with a U.S. recession looking more likely, housing may get its third called strike when the industry really needs a hit.

Starting in mid-2005, the first strike to impact the industry was the popping of the bubble in the coastal and high-growth markets of California, Florida, Nevada, Arizona and the Mid-Atlantic region, which saw dramatic price appreciation and rapid increases in production. As prices first began not to increase, investors began to exit the market, which caused demand to fall and supply to increase. At that point, it was too late to stop production of started homes and a large supply of condominiums in the pipeline.

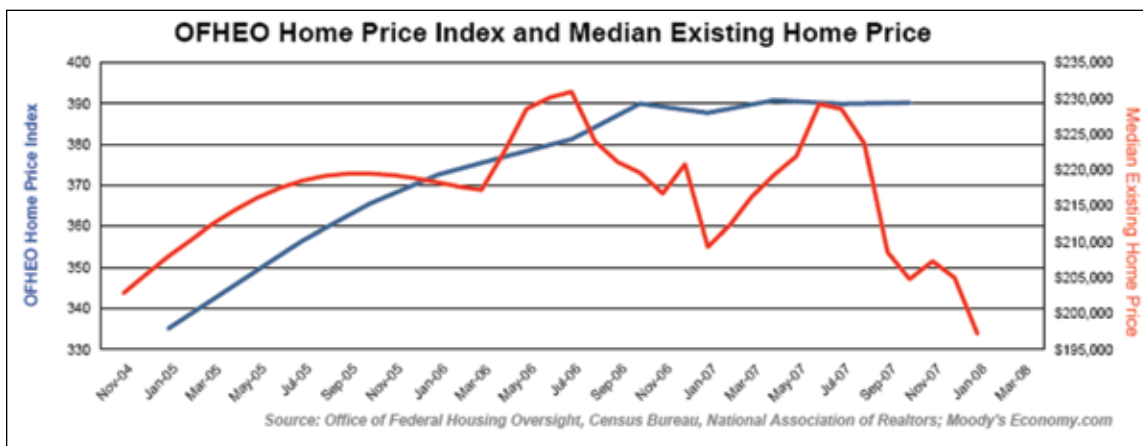
By late 2005 and into 2006, home prices began to fall dramatically in the former bubble markets. This induced the second strike against the industry — the subprime induced credit crunch. As a result, demand began falling in markets beyond the former bubble markets, and inventories of new homes and existing homes began to rise. This led to home price declines in most markets in 2007, and consumer sentiment sank to historic lows. (See OFHEO chart below.)

There was hope that 2008 would bring the end of the decline, but the first quarter has not been promising. Home prices — as measured by the National Association of Realtors, by OFHEO or by S&P Case-Shiller — continue to register declines. On a seasonally adjusted basis, home sales have not shown strong signs of improvement so far this quarter. New home sales continued to decline in January and February. Existing home sales rose 2.8% in February while the index of pending home sales fell 1.9%, sending mixed signals regarding any real trend. On the positive side, since housing starts and permits have continued to decline, inventories of new homes are slowly improving. (See chart: *New and Existing Home Sales*.)

The outlook for 2008 at a national level looks weaker due to growing unemployment and continuing declines in home ownership driven largely by tightening credit standards and availability. Home sales are strongly correlated with household formation, job growth, low unemployment, income growth and home ownership rates. Recessionary conditions will negatively impact jobs, and incomes and will likely contribute to further declines in home ownership. (See chart: *Demand from Home Ownership Change*.)

On the positive side, the majority of markets in the country do not have significant inventories on an absolute basis. Likewise, the risk of home price decline is not high outside of the former bubble markets and mostly Midwestern markets that have already seen declining economic conditions due to declines in automobile manufacturing. Therefore, once consumers regain confidence in markets like Atlanta, Dallas and Denver, the pace of sales will rebound to bring down the months' supply of existing and new homes to more normal levels. Barring a severe recession, healthy non-bubble markets will likely see conditions improve in the second half of 2008.

The outlook for 2008 isn't positive for the former bubble markets like Miami, Las Vegas and Los Angeles. Home prices are likely to continue to fall until demand can catch up with supply. With consumer perceptions that prices will fall further, even with good credit access,

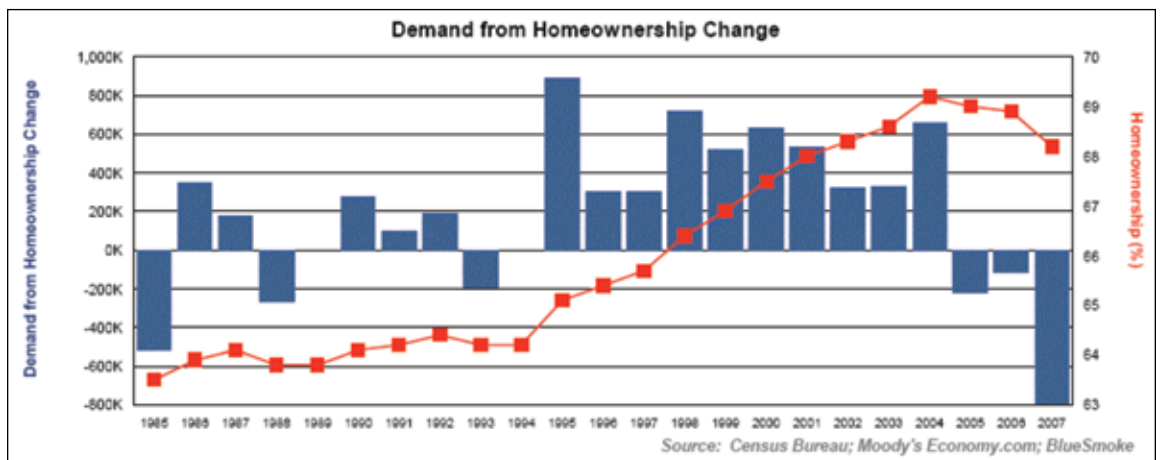


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home sales are likely to remain depressed. As a result, inventories will continue to remain high.

In addition, markets like Detroit, which have seen household losses from out-migration as well as declines in jobs and incomes, will also continue to see inventory issues and home price declines.



## BEST AND WORST PLACES FOR HOUSING PROSPECTS

BlueSmoke recently updated its Prospects Index calculations based on the latest historical data and forecasts for key housing metrics, including market equilibrium, economic outlook, home price risk, and long term home price appreciation. The index calculations are meant to give a picture of what they expect these markets to be like in 3 to 5 years. While the market equilibrium is current, the other variables are based on the most recent forecasts out for 5 years.

Using the 361 largest markets in the country (all 361 metropolitan statistical areas), the best markets for housing are in the South and West:

### BEST MARKETS FOR HOUSING

- Tyler, TX
- Victoria, TX
- Sherman-Denison, TX
- Morgantown, WV
- Odessa, TX
- Bowling Green, KY

- Longview, TX
- Fort Collins-Loveland, CO
- Hinesville-Fort Stewart, GA
- Boulder, CO
- Midland, TX
- Brownsville-Harlingen, TX
- Longview, WA
- Dallas-Fort Worth-Arlington, TX
- Santa Fe, NM
- Owensboro, KY
- Columbus, IN
- Rome, GA
- Pueblo, CO
- Texarkana, TX-Texarkana, AR
- Greeley, CO

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The worst metropolitan statistical areas are mostly the markets we hear about in the news — those that were most “bub-bilicious” or suffering from economic decline:

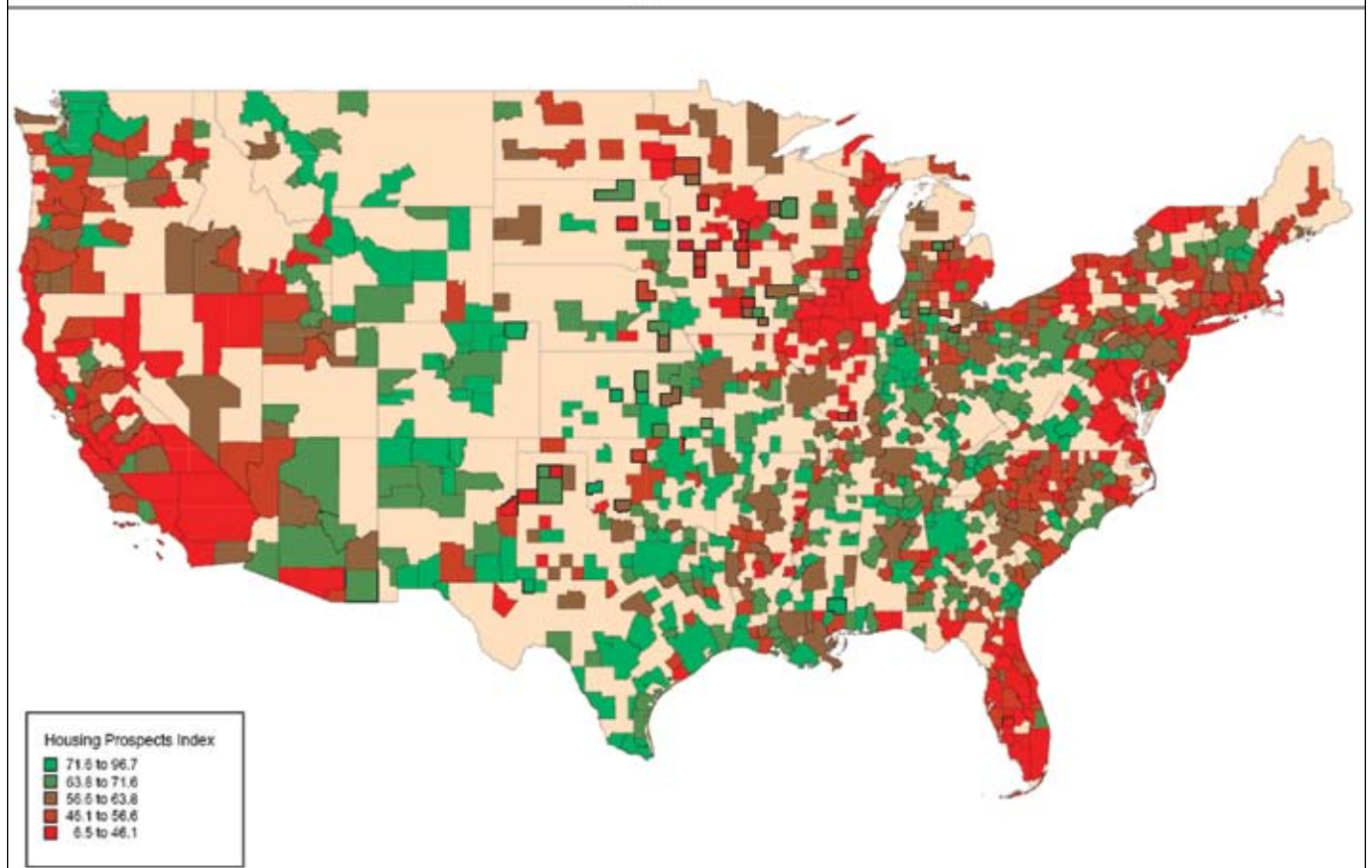
## WORST MARKETS FOR HOUSING

- Ocean City, NJ
- Atlantic City, NJ
- Salinas, CA
- Champaign-Urbana, IL
- Gainesville, FL
- Orlando-Kissimmee, FL
- Dover, DE
- Barnstable Town, MA
- Kankakee-Bradley, IL
- Vallejo-Fairfield, CA
- Los Angeles-Long Beach-Santa Ana, CA

- Rockford, IL
- Palm Coast, FL
- Jacksonville, FL
- San Diego-Carlsbad-San Marcos, CA
- Detroit-Warren-Livonia, MI
- Naples-Marco Island, FL
- Cape Coral-Fort Myers, FL
- Palm Bay-Melbourne-Titusville, FL
- Hartford-West Hartford-East Hartford, CT

Looking at all 939 metropolitan and micropolitan statistical areas by relative prospects, we see that the majority of the worst prospects, depicted in red, are in coastal states and Midwestern states. The greener pastures are in Texas, Colorado, New Mexico, and much of the south outside of Florida.

**Bluesmoke Housing Prospects Index  
April 2008**



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## Real Estate Capital Markets

### THE DE-LEVERAGING OF THE MARKET CONTINUES

BridgePointe Advisors continuously tracks existing and emerging investment capital sources — domestic/off-shore and private/institutional. As of the time of this article, the capital markets continue to be in a de-leveraging mode.

Given the lower leverage, deals must either offer a lower return to the equity capital or provide higher project returns. This is a key driver to the preference for value-add versus stabilized core opportunities. Creative capital engineering with multiple layers (senior debt, junior debt, equity) has never been more important. Our recent assignments and conversations provide the following insight.

<b>INVESTMENT MARKET</b>	Transaction volume is down significantly given the continued disparity between the bid-ask price. Core assets in secondary markets have seen more significant disparity than in the primary markets. Many investors remain non-committal. However, there are a number of balance sheet strong investors that are actively looking for acquisitions and using the current environment as an opportunity.
<b>LOAN SALE MARKET</b>	Moderate volume but expected to increase. Pricing disparity between buyers and sellers (lenders). Investors are looking for mid-teen returns and 20% + discounts to par pricing, whereas lenders would like to sell at high single-digit returns and 90% to 100% of par pricing. From a lender's perspective, commercial mortgage pools are still performing and are of lesser priority than sub-prime inventory.
<b>PERMANENT DEBT</b>	Investment banks are not lending via their conduit programs as that market is essentially shut down. Non-insurance company balance lenders are funding with a preference to shorter term maturities (5-year). Lack of 10-year money in the market. Life Insurance companies while selectively active are not filling the void.
<b>CONSTRUCTION DEBT</b>	Senior construction debt is more difficult to get as fewer banks are active, given regulatory pressures. Leverage has decreased from 80% to 85% of cost to 70% to 75% (lower for deals above \$40 million). Little non-recourse debt available and recourse spreads have increased from 100 to 150 basis points over LIBOR to more than 200.
<b>MEZZANINE DEBT</b>	Distracted by attractive returns of senior rated CMBS securities (see chart below). Regardless, there are plenty of mezzanine funds looking to fill the capital gap. Pricing is higher and leverage is lower. Pricing for transitional assets is in the high teens and mid-teens for stabilized projects. Preference for fundings that do not exceed 85% LTVs.
<b>BRIDGE FINANCING</b>	The majority of bridge lenders now require partial recourse and LTVs are rarely exceeding 75%. Very selective on their fundings. Focusing more so on acquisitions than recapitalizing "broken" capital stacks.
<b>EQUITY</b>	Preferred equity is more selective and return requirements have increased to the high teens. Distracted by attractive returns of the mezzanine market. Joint venture equity is also very selective on assets and sponsors but we continue to see increasing joint venture activity. See Pension Fund overview below.

	CMBS Tranche	Low	High
10-yr AAA	10-yr AAA	6.06%	6.97%
AAA	SuperSr AAA	6.01%	6.55%
AAA	Junior AAA	9.45%	9.91%
AA	AA	10.76%	12.70%
A	A	12.51%	15.15%
BBB	BBB	18.71%	22.00%
BBB-	BBB-	22.15%	25.00%
BB	BB	23.48%	29.48%
B	B	25.48%	35.48%

BridgePointe Advisors recently surveyed over 25 pension fund advisors to determine where this institutional class was placing investment capital in today's real estate market.

• While some pension funds are increasing real estate allocations, others are on the sideline as stock market and fixed-

income devaluations have caused over-allocations to the real estate sector.

- Retail is still of interest to many but there is an increasing concern over the decreasing consumer sentiment and spending levels.
- Most pension funds have reduced their allocations to stabilized core assets and instead are aggressively pursuing value-add opportunities. Decreasing interest and significant selectivity for ground-up situations. While pension funds can acquire core assets directly, they need to joint venture value-add opportunities with qualified local operators.
- While the minimum deal size is \$10 million to \$20 million, there are a few pension funds that will go to smaller markets and fund deals in the \$5 million to \$10 million range. Primary market and strong secondary market preference.
- Joint venture arrangements range from multi-tiered waterfall structures to more simplistic 50/50 splits above a preferred return.

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The information contained in this section was accurate as of April 3, 2008.

## RETAIL REIT UPDATE

REIT	Stock Symbol	Dividend Yield	Current Price As Of 4/3/08	Stock Price % Change From Previous Periods	
				3/12/08	1/2/08
<b>SHOPPING CENTER</b>					
Agree Realty Corp.	ADC	6.90%	\$28.99	4.54%	-0.72%
Acadia Realty	AKR	3.30%	\$26.42	10.36%	2.84%
AmREIT	AMY	6.80%	\$7.38	13.54%	4.24%
Cedar Shopping Centers	CDR	7.40%	\$12.28	5.14%	24.42%
Developers Diversified Realty	DDR	6.20%	\$45.47	17.34%	18.81%
Equity One, Inc.	EQY	4.70%	\$26.44	21.79%	16.07%
Federal Investment Realty Trust	FRT	3.00%	\$82.80	15.53%	1.10%
Inland Real Estate Corp.	IRC	6.30%	\$15.88	7.37%	13.75%
Kimco Realty Corp.	KIM	3.90%	\$41.93	19.97%	15.10%
Kite Realty Group	KRG	5.40%	\$15.14	23.59%	4.34%
Ramco-Gershenson	RPT	8.50%	\$22.34	3.71%	5.88%
Regency Centers	REG	4.10%	\$72.03	21.55%	13.40%
Saul Centers	BFS	3.50%	\$54.56	7.38%	2.42%
Urstadt-Biddle Properties	UBA	5.40%	\$17.60	12.53%	15.79%
Weingarten Realty	WRI	5.70%	\$37.58	20.26%	20.80%
<b>ENCLOSED MALL</b>					
CBL & Associates	CBL	8.60%	\$25.81	11.88%	7.23%
Feldman Mall Properties	FMP	33.10%	\$2.75	5.36%	-22.97%
General Growth Properties	GGP	4.80%	\$43.08	28.79%	7.70%
Glimcher Realty Trust	GRT	10.10%	\$12.41	11.20%	-15.29%
PREIT	PEI	8.70%	\$26.54	11.65%	-6.22%
Simon Property Group	SPG	3.60%	\$103.19	19.27%	21.43%
Taubman Centers	TCO	3.00%	\$57.66	19.11%	17.15%
<b>FACTORY OUTLET</b>					
Tanger Factory	SKT	3.50%	\$41.95	16.17%	12.95%
<b>OTHER RETAIL REITS</b>					
Colonial Properties Trust	CLP	7.90%	\$25.95	6.79%	17.21%
Cousins Properties	CUZ	5.60%	\$27.27	12.73%	24.35%
Entertainment Properties Trust	EPR	6.40%	\$52.16	5.16%	12.58%
National Retail Properties	NNN	6.10%	\$23.41	13.15%	0.56%
<b>PUBLICLY HELD COMPANIES</b>					
CB Richard Ellis	CBG	N/A	\$21.99	17.59%	2.85%
Forest City Enterprises	FCEA	N/A	\$38.68	7.38%	-11.14%
Jones Lang LaSalle	JLL	1.20%	\$84.46	14.17%	18.32%