QUADRANT
REAL ESTATE ADVISORS

United States Commercial Real Estate Market Update[1]

Market Overview:

- Improved outlook in Europe and signs of economic stabilization and growth domestically contributed to most publicly traded asset classes gaining in December.
- The S&P 500 Index ended the month up 1.02% as more positive U.S. economic news led to a late month rally. The NAREIT Index outperformed the broad equity market, gaining 4.79% for the month, as Financials sector stocks recovered from Euro-driven volatility in November.
- Spread products were broadly up in December. REIT bonds posted a 1.65% monthly return, and BBB CMBS again outperformed AAA CMBS as investors searched for yield. The 10-year U.S. T-Note gained 1.90% to end the month yielding 1.88%.
- Four new CMBS pools priced and settled in December - two conduit deals consisting of generally average to poor quality assets and two single borrower/single asset deals secured by mall properties. All were oversubscribed.
- Attractive private commercial real estate debt investment opportunities are expected to be plentiful going into 2012. Maturities in 2012 total approximately $375 billion, of which only about $50 billion is conduit debt, which tends to collectively be of lower quality. That compares to 2016-2017 maturities, of which 50%+ are expected to be conduit debt that was originated at the peak of property market values.

Market Performance:

Equity Market	Index	December MTD %	December YTD %
US Stock Market	S&P 500	1.02%	2.09%
Public CRE common stock	NAREIT Equity	4.79%	8.28%
Public CRE preferred stock	Wells Fargo REIT PFD	2.27%	9.85%
Private CRE direct	NCREIF Property Index (NPI)*	N/A*	14.30%*
Fixed Income Market	**Index**	**December MTD %**	**December YTD %**
10 Year U.S. T-Note	Merrill Lynch, UST, Current 10 Yr	1.90%	17.15%
Public CRE Corp Bonds	Barclays REIT Bond Index	1.65%	7.52%
AAA CMBS (Vintage Only)	Barclays Capital Vintage AAA CMBS	0.92%	6.02%
BBB CMBS (Vintage Only)	Barclays Capital Vintage BBB CMBS	2.23%	6.59%
AAA CMBS	Merrill Lynch AAA CMBS	0.80%	5.88%
BBB CMBS	Merrill Lynch BBB CMBS	2.21%	-0.02%

*NCREIF NPI is a quarterly composite of investment performance of a large pool of individual commercial real estate properties acquired in the private market. All properties included in the index meet NCREIF's defined criteria for inclusion (e.g., no development, market value accounting, etc.). All properties included in the index have been acquired by tax-exempt institutional investors. Data presented is as of December 31, 2011.

Quadrant's Relative Value View:[2]

Private Debt:

- ***Underserved First Mortgages:*** 6%-to-6.5% yields are available on a range of investment opportunities, which include one or more of the following attributes: (1) Up to 75% LTV first mortgages, (2) Tailored structuring; and (3) Small loans (under $15 M).
- ***Programmatic Subordinate Debt:*** Debt yields can be enhanced by carving off an A-Note (approximately 0%-to-37.5% loan to value), on a matched term and matched funding basis; and retaining a material B-Note position to achieve IRR's of 7%+.
- ***Mezzanine Debt:*** Mezzanine debt can fill the gap that remains between maturing mortgages and new financing proceeds to achieve yields of 8%+. Opportunities continue to be scarce.
- ***Transitional Loans:*** Selective opportunities exist for outsized returns on pay and accrue structured whole loans, mezzanine and preferred equity investments secured by properties in transition (i.e. 4%-to-6% current yields; 8%-to-12% total returns).

Public Debt:

- ***REIT Bonds***: Yields continue to be attractive compared to the broad corporate bond market and CMBS in particular, although yields are generally low relative to subordinate fixed-rate real estate investments (i.e. REIT preferred and private debt).
- ***CMBS:*** Demand for high quality super senior and subordinate tranches continues to be strong as investors search for yield. As such, Quadrant has generally been a seller at prices in excess of PAR.

Private Equity:

- ***Direct Equity (Core):*** Quadrant believes that better risk adjusted returns can be achieved in the debt market.
- ***Direct Equity (Enhanced)***: Selective opportunities exist for outsized total returns in properties with low current income (transitional properties).

Public Equity:

- ***REIT Common Stock***: Limited opportunities exist for stock in companies that have deleveraged their balance sheets, maintained solid operating performance and hold substantial cash balances for future acquisitions.
- ***REIT Preferreds:*** Yields remain attractive on a risk adjusted basis in comparison to lower yielding common stock and bond alternatives.

Strong Relative Value **Moderate Relative Value** **Poor Relative Value**

[1] Data sources include Quadrant Real Estate Advisors, Bloomberg, Barclays Capital, IDC, Wells Fargo, REIS, Real Capital Analytics, NCREIF, Citigroup, JP Morgan, NAREIT, Merrill Lynch and Jones Lang LaSalle, Land and Buildings.
[2] Investment yields are Quadrant's best estimate of the yield range on desirable investments available in the market place.

About Quadrant Real Estate Advisors

Quadrant Real Estate Advisors LLC (Quadrant) is a SEC registered investment advisor with approximately $6.1 billion of commercial and multifamily real estate investments under management on behalf of institutional investors. Quadrant's clients include insurance companies, pension funds, sovereign wealth funds and high net worth investors.

Since 1993, Quadrant senior management have worked together as a team providing its clients access to both privately placed and publicly traded U.S. commercial real estate debt and equity investments through commingled funds and single client accounts. In addition to experience, senior management owns 50% of the firm thereby providing true alignment of interest and accountability.

The firm's executive leadership includes Kurt Wright, Chief Executive Officer; Michael Wood, Executive Vice President; Thomas Mattinson, Executive Vice President; and Walter Huggins, Executive Vice President.

Important Notes

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