



February 25, 2011

Dear Friends & Colleagues,

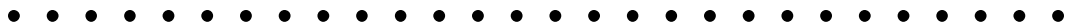
I am pleased to present you with JCR Capital's 2011 Market Update.

Major Themes for 2011

1. **2011 is the year we've been waiting for:** The resurgence of the conduit market, a steady flow of bank notes, and an improving economy have sparked the beginning of the "new normal" era.
2. **There are three markets right now:**
 - ⇒ Trophy/core assets
 - ⇒ Multifamily assets
 - ⇒ Everything else
3. **The deleveraging process:** While trophy assets have increased in value due to investors chasing yield, non-trophy assets continue to go through a painful process of deleveraging that will take years to complete.
4. **Capital:** New capital is forming but it will not be able to compensate for the capital lost in the financial meltdown of 2008.
5. **Macro economy:** The "double dip" recession fears have subsided. Interest rate increases and lagging job growth are the two biggest potential land mines.

Real Estate Distress: Circa 2011

1. **Note sales:** 2011 will be the year of the DPO and note sale. If you have been waiting, the time is now for discounted note payoffs and third party note sales.
2. **Extend and pretend is over:** Legacy lenders are tired of extending with no hope of repayment. The market has recovered enough to where lenders are pushing borrowers to solve their problems. Recapitalizations will now occur in earnest.
3. **Distress is not going away:** The government's "Save the Banks" policy and the slow methodical process of the CMBS special servicers have ensured a pipeline of distress that should last at least 36 months.



Inside this issue:

- Major themes for 2011 real estate investing
- Real estate distress in 2011
- The "real estate economy" in 2011
- Update on the capital markets
- Real estate fundamentals
- Opportunities in 2011

JCR Capital Investment Corporation
 1225 17th Street
 Suite 1850
 Denver, CO 80202
 303-531-2097 main
 www.jcrcapital.com



Real Estate Economy: Overview

- ⇒ **Cap rate compression:** Cap rates have compressed on the best assets – this compression has occurred due to investors chasing yields, not due to real estate fundamentals. Compressed cap rates are occurring on “trophy assets” in gateway cities that have an excellent location and great rent rolls. Real estate assets that do not fall into this category have wide variations in pricing, leverage, and structure.
- ⇒ **Government subsidized products:** All paved roads lead back to the government. If there are government subsidies, capital will follow.
- ⇒ **The bottom?** We have hit the bottom and we are standing on it. The question now is, how long will we stay at the bottom? Assets continue to trade below replacement costs, new construction is very limited, and predicting occupancy and lease rates going forward will be challenging.

Real Estate Capital Markets

- ⇒ **CMBS:** The rebuilding of the CMBS market is the primary contributor to this year’s optimism. We have counted over 20 new CMBS programs that are operating, or soon to be operating. However, we don’t believe that there is enough qualified product to satisfy all of these platforms. Today, CMBS looks like:
 - 10 year fixed rate financing
 - LTV: 70-75%
 - Debt service coverage: 1.25x
 - Underwriting: Looking closely at rent roll, occupancy and future roll
 - The projection for 2011 is \$40-50 billion, down from the peak of \$250 billion.

“The rebuilding of the CMBS market is the primary contributor to this year’s optimism.”

The question is, will the underwriting constraints significantly change (loosen), and when?

- ⇒ **Banks:** Bank closures are going slowly. Most banks serving the middle market continue to struggle with legacy assets on their balance sheets. Banks who serve the middle market will not be a capital factor in 2011.
- ⇒ **Life companies:** With no competition in the past few years, life companies will begin to feel the conduit pressure.
- ⇒ **Government agencies:** Government subsidies on multifamily loans are worth 200-300 basis points in cap rate value. While one can question whether or not this is good government policy, it’s good for those in the multifamily business.
- ⇒ **Private capital:** Private capital is forming and will continue to form in order to take advantage of the capital dislocation. Private capital is not highly leveraged, which causes rates to be higher than historical norms. As leverage comes back, private capital rates will decline. For now, expect 7-14% depending on product type, location, sponsor, and asset strength as the norm for private capital.

Real Estate Fundamentals

- ⇒ New York/DC: Class A properties in these urban markets have recovered. Lenders will drop rates and increase proceeds in order to be in these markets.
- ⇒ Other major markets: Pick your name – “gateway cities”, “coastal cities”, “24-hour cities”; they are all a cut above the rest in the eyes of the capital providers.
- ⇒ “Everywhere else”: These secondary and tertiary markets are not getting a lot of attention from capital providers. Nonetheless, these are the markets of opportunity with for those with local expertise, capital and a sound business plan.
- ⇒ Occupancy and rental rates: Without job growth, properties will continue to cannibalize each other.

Opportunities for 2011:

1. Financing illiquid sponsors who know local markets and control the assets.
2. Providing capital to buyers of non-performing loan
3. Recapitalization and restructuring of overleveraged legacy loans
4. Buying and financing “non-trophy” fee simple real estate at a reduced basis

All the Best in 2011!

Jay Rollins
Principal

JCR Capital
Commercial Real Estate Finance
www.jcrcapital.com

Investment Overview:

- ⇒ Borrower note repurchases
- ⇒ Note financing
- ⇒ REO financing
- ⇒ New acquisitions
- ⇒ DIP loans
- ⇒ Special situations

Investment Products:

- ⇒ Debt
- ⇒ Equity

Deal Size: \$1-10 million

Terms: 6 months-3 years

1225 17th Street
Suite 1850
Denver, CO 80202
303-531-2097 main
www.jcrcapital.com

Jay Rollins
303-531-0202
303618-0530 (cell)
jayrollins@jrcapital.com

Maren Steinberg
303-531-0204
720-635-7032 (cell)
marensteinberg@jrcapital.com

J. Daniel Cho
303-531-0219
danielcho@jrcapital.com

Garett Bjorkman
303-531-0218
danielcho@jrcapital.com

Submitting Deals to JCR

JCR Capital will review investment opportunities between \$1MM and \$10MM. For the quickest response, please complete a JCR Capital Fast Track Deal Form (see attached), which can also be downloaded from our website:

<http://www.jcrcapital.com/pdfs/Fast-Track-Deal-Form.pdf>

*As always, we welcome your
feedback and questions.*