QUADRANT
REAL ESTATE ADVISORS

United States Commercial Real Estate Market Update[1]

Market Overview:

- After strong October performance, November saw a return of volatility in equities and spread products due to renewed confusion over the Eurozone's future.
- Sentiment was largely driven by questions about the effect on the Euro of potential European Union membership changes. What would the currency be worth in a complete breakup? Would Euros be exchanged pro rata for new member state currencies? Would the Euro actually strengthen if a weaker EU member left the block or could it become worthless? European leaders have been tasked to make these questions moot, but successful resolution has not yet been achieved.
- Despite volatility, the S&P 500 Index ended the month nearly flat, down 0.22%, after falling as much as 7.34% intra-month. The NAREIT Index, however, lost 3.76% as concerns about European bank solvency in an EU membership shakeup weighed on all financial sector stocks.
- Spread products were mixed in November. REIT bonds fell slightly, in line with the broader corporate bond market, whereas CMBS gained. Just as in October, lower rated bonds outperformed higher rated bonds across non-sovereign fixed income markets.
- The "safe haven" 10-year U.S. T-Note gained 1.31% to end the month yielding 2.07%.
- One new conduit CMBS pool priced and settled in November, though the underlying loans had large been originated in late Q2 and early Q3 2011. Conduit loan origination has remained low since Q3 and is unlikely to increase materially until late Q1 29012 or later.
- CMBS 60+ day delinquencies (including liquidations) decreased 15 bps in November to 9.37%, driven by the multifamily and hotel sectors.

Market Performance:

Equity Market	Index	November MTD %	November YTD %
US Stock Market	S&P 500	-0.22%	1.06%
Public CRE common stock	NAREIT Equity	-3.76%	3.33%
Public CRE preferred stock	Wells Fargo REIT PFD	0.08%	7.42%
Private CRE direct	NCREIF Property Index (NPI)*	N/A*	10.98%
Fixed Income Market	**Index**	**November MTD %**	**November YTD %**
10 Year U.S. T-Note	ML, U.S. Treasury, Current 10 Yr	1.31%	14.97%
Public CRE Corp Bonds	Barclays REIT Bond Index	-0.27%	5.78%
AAA CMBS	Barclays Capital Vintage AAA CMBS	0.30%	5.05%
BBB CMBS	Barclays Capital Vintage BBB CMBS	0.65%	4.27%
AAA CMBS	Merrill Lynch AAA CMBS	0.10%	5.04%
BBB CMBS	Merrill Lynch BBB CMBS	0.52%	-2.18%

*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 September 30, 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%+.
- ***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 (e.g. 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, although yields are generally low relative to subordinate fixed-rate real estate investments (i.e. REIT preferred and private debt).
- ***CMBS:*** Resilient demand for AAA-rated super senior tranches has contributed to a steep credit quality curve. As such, select buying opportunities might be found among high subordinate tranches within high-quality pools.

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***: Market turmoil should create select opportunities for long-term appreciation oriented investments in companies that have deleveraged their balance sheets, maintained solid operating performance, and hold substantial cash balances for future acquisitions.
- ***REIT Preferreds:*** Market volatility has increased the opportunity to lock in attractive pricing and yields.

● **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.
[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 $5.9 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 1990, 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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