QUADRANT
REAL ESTATE ADVISORS

United States Commercial Real Estate Market Update[1]

Market Overview:

- Following poor performance in August and September, positive pricing changes in October for non-Treasury, domestic assets reflected investors' bullish reaction to less negative U.S. economic news and signs that Europe was addressing its sovereign debt crisis.
- The S&P 500 Index gained 10.92%, the highest monthly total return since December 1991, and REIT common equities gained 14.28%.
- Spread products also gained in October with credit quality driving performance. Returns on lower rated investments outperformed higher rated credits as investors' risk appetite improved.
- Ten-year U.S. Treasury notes fell 1.95% to end the month yielding 2.11%.
- Conduit lenders remained largely absent from the loan origination market and are unlikely to return in the near-term.
- CMBS 60+ day delinquencies (including liquidations) increased marginally in October to 9.55%. The retail sector rose 24bps, leading the increase.

Market Performance:

Equity Market	Index	October MTD %	October YTD %
US Stock Market	S&P 500	10.92%	1.28%
Public CRE common stock	NAREIT Equity	14.28%	7.36%
Public CRE preferred stock	Wells Fargo REIT PFD	0.92%	7.33%
Private CRE direct	NCREIF Property Index (NPI)*	N/A*	10.98%
Fixed Income Market	**Index**	**October MTD %**	**October YTD %**
Public CRE Corp Bonds	Barclays REIT Bond Index	1.70%	6.07%
AAA CMBS	Barclays Capital Vintage AAA CMBS	1.10%	4.74%
BBB CMBS	Barclays Capital Vintage BBB CMBS	1.50%	3.59%
AAA CMBS	Merrill Lynch AAA CMBS	1.52%	4.94%
BBB CMBS	Merrill Lynch BBB CMBS	1.66%	-2.69%

*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.

[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.

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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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For additional information, please contact:

Kurt Wright, CEO
770-752-6713
kwright@quadrantrea.com