



April 1, 2009

Dear Friends,

Many of us have grown accustomed of late to unfolding our favorite morning newspapers only to be greeted by the newest dose of bad news blanketed across the headlines. Undoubtedly the current global economic challenges and the rapid deterioration of our federal and state economies have been well documented by media. Last Thursday, March, 26th morning's dose of unpleasant news was a bit different than the others of late as it resonated particularly close to home.

On the front cover of the *Wall Street Journal* was an article authored by Lingling Wei titled "*Commercial Property Faces Crisis*" which outlines the upcoming challenges in the commercial real estate sector, particularly the stress on the banking system imposed by overexposure to commercial real estate assets with near term loan maturities. Wei warned that the impending crisis caused by \$679 billion in commercial real estate loans both securitized and held on balance sheets that mature by 2012 could potentially result in default rates and losses that exceed levels we saw in the early 1990's. As lenders scurried to place aggressive leverage on assets, they banked on escalating effective rents and declining vacancy rates to provide sufficient debt coverage and did not foresee or account for in their risk management the fall-out of a less forgiving market. To further compound the pain, the banking system is faced not only with the non-performing loan scenarios but also with having to refinance billions in maturing performing loans with no conduit (CMBS) market and therefore less available capital.

CORE recognizes that in this uncertain time it is important now more than ever to be communicating with our valued relationships on a regular basis and providing you with relevant information you can use to reassure your clients that CORE is deeply committed to both the performance of the investment vehicles we have structured and that the assets are positioned for success in this challenging climate. It is also critical for both you and your clients to be able to relate the information about our broader economic state in to your specific portfolios. Last Thursday's article has provided us with the opportunity to reach out to you and discuss within the context of our own portfolio the relevant challenges we face as a global community. Within the CORE Portfolio, each individual property is its own Tenant-in-Common investment program and information about specific properties can be provided upon request.

It is important to analyze three things in all of your client's Tenant-in-Common holdings: loan maturities, leverage (LTV), and debt coverage ratios (DCRs).

CORE's portfolio is in the unique and advantageous position of having an average loan maturity of 81 months beginning April, 2009 (6.75 years from April 1st, 2009) which means that our assets are not facing a refinance scenario for quite sometime. This time will allow two things to occur. The first is that it will allow the real estate cycle to run its course, presenting our investors' with an attractive opportunity to refinance or dispose of their properties at a more stable stage in the cycle. The second is that our investors will not be forced to make imprudent decisions by imminently maturing debt, which in today's market is resulting in dispositions at deep discounts by motivated and distressed sellers.

The Debt Coverage Ratio (DCR) is derived by dividing the Net Operating Income by the Debt Service (NOI / DS) and is an underwriting standard which lenders use to evaluate the health of an asset's cash flow based on the debt service burden imposed by the loan. Lenders typically want to see a DCR north of 1.20 which means the NOI generated from the property's operations is sufficient to cover the debt service 1.20 times (1.20X). The CORE portfolio is strong in this regard as well. The CORE Portfolio DCR is 1.65 as of year end December, 2008 which means on a portfolio basis the

cash flows generated from the properties are more than sufficient to cover debt service which is particularly reassuring in today's market to lenders who look across their portfolios and see more and more assets perilously close to not covering debt service.

The third important metric is leverage or Loan to Value. As Lingling Wei mentions in the *WSJ* article, when assets need to be refinanced the loan amount is constricted by LTV requirements and in today's market leverage is constrained at 65% of value. An asset acquired at the height of the market with 80%-90% leverage could be significantly under-water if it had to be refinanced today. The CORE Portfolio is 63.0% leveraged which we believe puts us in a conservative and comfortable position.

We believe that in this market CORE needs to first preserve the integrity of the investment vehicles we structured and you have entrusted us to manage and second, exploit the unprecedented opportunities created by the chaos in the market.

There is no question that commercial real estate fundamentals are softening. As we look at our own portfolio we are witnessing an increase in vacancy and flat to negative rent growth across all asset classes in most markets nationwide. We are by no means immune to the reality of the market but we feel we are well positioned to ride out the storm and that as a result, our investors will not be forced to make imprudent decisions.

It is our intention in Asset Management to position each of these properties to be the most competitive and appealing option in the market which will enable us to work with attractive tenants under the most advantageous terms. In Acquisitions we will continue to be patient until we believe the time and opportunity is right. We have structured the firm so that we are not reliant on transaction-based income to operate. We believe, as a result, we will be better buyers and operators of real estate, and like our investors, we will not be forced to make imprudent decisions.

If you have any questions about CORE, any of the offerings in which your clients' are currently invested, or CORE's current offerings please contact your wholesaler who will be happy to provide you with any property specific information described herein or otherwise. If you would like a copy of Lingling Wei's aforementioned article from Thursday's *Wall Street Journal* please let us know and we will be sure to send it along. We appreciate your relationship; please let us know how we can help.

Best regards,

Doug Morehead
CEO & Vice Chairman
CORE Realty Holdings, LLC

