CALDERA
ASSET MANAGEMENT

Solutions for Lenders, Servicers and Investors on Multifamily Assets

Spring 2011

In alliance with:

RAM
PARTNERS, LLC

ARE WE OUT OF THE WOODS YET?

There is a lot of euphoria in the market place, and much of it is well deserved. With increasing asking rents and strong occupancy, it almost feels like 1993/1994 again in certain markets where the operational momentum was extraordinary. However, unlike 1993/94 when there was little over-hang of bad debt, 2011 and 2012 will continue to be challenging for lenders and loan servicers due to the significant amount of loan expirations from 2005-2007 over-leveraged deals. Even though the cap rates for Class A and B assets have compressed and NOI's have increased, the maturity bubble is still ahead of us.

Caldera Asset Management is experienced in assisting multifamily clients with their needs. Our goal is to professionally execute on services which allows our clients to efficiently manage their evolving needs.

Each asset is different and there is not a single "one size fits all" strategy. We provide experience, resources and the expertise required to quickly assess the issues (both market and physical), develop appropriate strategies and implement them to achieve client's goals and objectives.

Lessons Learned from working on a Recapitalizations and Restructuring Engagements in 2010

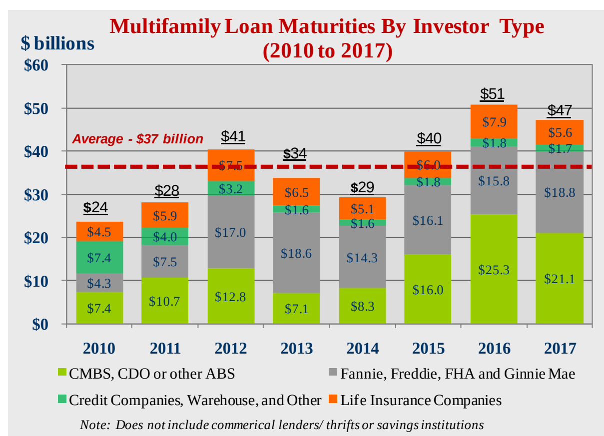
- Negotiations on loan extensions/ modifications are taking 7 to 8 months even when the loans are performing.
- Pricing on Class B- and C assets continues to drop, and there are few qualified buyers on these assets.
- The euphoria on cap rate compressions is not universal. A large percentage of the transactions are coming off their "Interest Only" period. This potentially increases the number of loan defaults.
- Time does not heal all deals.

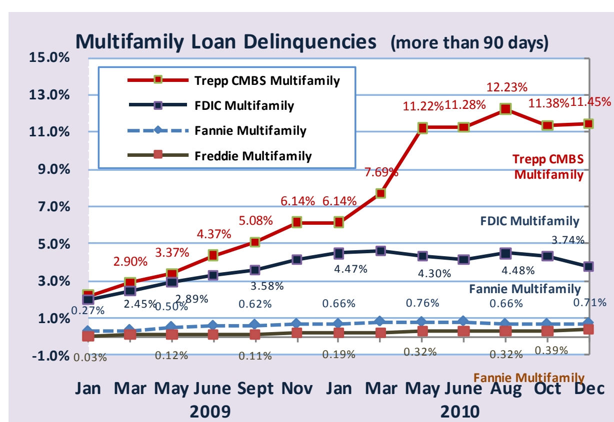
ISSUES IN THE CURRENT MARKET

- Distressed Asset Classes: Distressed assets are spread across all apartment classes (A, B and C) and span all geographic regions. Per RCA, there are currently $38 billion apartments under distress, well above other property types.

- Additional Capital Needs: During the last economic downturn, net operating income ("NOI") fell and owners generally were not able to contribute sufficient cash towards ongoing capital needs. Even with the recent improvements in NOI, much of this improved cash flow will go towards addressing outstanding capital items.

- New Highs for Multifamily Loan Delinquencies: CMBS Multifamily Loan Delinquencies are higher than other property types. At the end of 2010, the 90 days or more delinquency rate was at 11.45%. That has jumped almost 300 bps during the first two months of 2011, hitting 14.35%. Unfortunately, once a loan delinquency goes beyond 90 days, it rarely recovers to performing status.





ISSUES IN THE CURRENT MARKET *(continued…)*

■ Lack of Full Dollar Refinancing:

Fannie Mae and Freddie Mac are the only two viable financing options for most apartment assets. Full dollar refinancing of assets acquired or refinanced between 2005 and 2008 will be more difficult as the financing metrics from the agencies have significantly changed. New CMBS originations for multifamily assets will be small as yields are much higher in other asset classes.

REFINANCE METRICS

	2005 to 2007	2011
Lenders	CMBS, Agencies	Agencies only
LTV	75% to 85%	65% to 70%
Spreads	120 to 140 bps	200+/- bps
Amortization	5 years to full term I/O	2 years I/O
DSC Ratio	1.00 to 1.10	1.25 to 1.35
Rents	Trended	Current
Rehab $	Financed, dollars to be escrowed	None
Refi Test	None	Yes

■ Lack of Financing for Sub-Quality Assets:

Currently, the agencies are the only viable options, and with strict guidelines, financing for low quality assets has all but dried up.

■ Reduction in Risk Appetite:

The cap rate compression for multifamily assets in 2010 doesn't exactly reflect an overall increase in risk appetite for investors. The risk premium (i.e. the spread of cap rates to the 10-year US Treasury) is at 385 bps, which is 195 bps higher than average over the last ten years. This indicates that investors outside Class A assets or top markets are still risk averse, and the average cap rates would be higher if the borrowing costs had not been at historical lows.

RATES AND SPREADS

(National - including All Asset Classes and All Markets)

	Cap Rate	Mortgage Interest	Positive Leverage	Risk Premium*
Peak	6.20%	5.90%	28 bps	160 bps
Present	6.70%	4.60%	209 bps	385 bps
Decade	6.90%	6.40%	53 bps	190 bps

* Spread between cap rates and 10-Year US Treasury

SOURCE: REAL CAPITAL ANALYTICS FEB 2011

■ Changes in Delinquent Transactions: Delinquent transactions are increasing in size, complexity and cost. Even established firms have been caught flat-footed when maturity dates approach, or assets go into distress. Loan extensions are taking more than seven months even if the asset is cash-flow positive. In many situations, properties go into disrepair and the account payables lists grow significantly larger. Therefore, engaging the right talent is essential to mitigate losses.

■ Train Internal Professionals: Many firms have responded to the current economy downturn by downsizing, or even disposing off entire departments. As assets continue to go into distress, or deteriorate, it is extremely difficult and expensive for firms to hire and train internal professionals who possess the experience necessary to professionally handle such assets.

OUR RECENT SUCCESS STORIES

■ REFINANCING AND RESTRUCTURING OF APPROX. $100 MILLION CLASS A ASSET:

Caldera helped a client with successful refinancing and recapitalization of a multifamily asset in the D.C. Market. With impending debt maturity, Caldera assisted the client in extending the original loan, and then recapitalizing the asset with a third-party equity investor.

SERVICES OFFERED

ASSET MANAGEMENT SERVICES

■ Loan Restructuring: Caldera has experience in managing loan renegotiations between borrowers and lenders. Our goal is to achieve successful resolution on negotiations, including extensions of existing loan terms. We also facilitate negotiations with servicers, and when necessary, mediate to assist clients with potential options. Our extensive experience in quick response works has helped our clients to minimize the length of time taken to process transactions.

(Morningstar: $100 million Recapitalization of Seven Springs….click here)

■ Viability and Strategic Alternative Reports: Caldera's Viability and Strategic Alternative Report will help clients quickly and efficiently understand all aspects and options of their existing asset. Caldera provides detailed support information on potential options including operational review, submarket review, refinancing, restructuring and property sale analysis. Caldera then works with the clients to implement the most strategic solution.

■ Monthly Consulting: For clients with larger on-going portfolios, Caldera can act as the client's centralized resource relating to apartment issues. We can utilize our extensive network to provide the client with local up-to-date knowledge on market operations (property and competitors), transactions, buyer profiles, real cap rates, various market trends and other relevant issues which impact asset values. We are able to not only provide a client with monthly updates on the physical asset and the rental market, but also develop and implement an appropriate strategy to achieve the client's goals.

■ Crisis (Interim) Management: We can quickly deploy personnel to evaluate and manage complicated management issues. These issues include platform management, partnership issues and lender renegotiations.

■ Operational Reviews: Caldera has been engaged by institutional investors to evaluate and provide changes to apartment platforms with considerable investment. The current market has forced changes in the original business plan (including growth through acquisitions or development) and clients have engaged Caldera to provide strategic solutions to "Right Size" the organizations in order to be more efficient going forward.

■ Portfolio Engagements: Caldera can quickly design strategic plans and arrange for asset management resources to be on site within days. We continue to analyze and further understand the asset during takeover and deliver a working plan to maximize value. Caldera has the experience and resources to efficiently take over larger portfolios. We can dedicate an asset manager to coordinate all activities with property management, allowing clients to more efficiently utilize their time, energy and efforts towards other aspects of their business, instead of having to spend time coordinating different management firms and vendors.

PROPERTY MANAGEMENT SERVICES

■ Asset "eye on" Pre-foreclosure: RAM currently manages 25,000 units across the country and has existing staff in many of the hard hit markets. RAM is able to provide a client with a monthly update on the physical asset, and the rental market.

■ Property Management Takeover: RAM can quickly design strategic plans and arrange for management resources to be on site within days. RAM continues to analyze and further understand the asset during takeover and deliver a working plan to maximize recovery/stabilization. RAM is experienced in single assets as well as large portfolio takeovers for different client types.



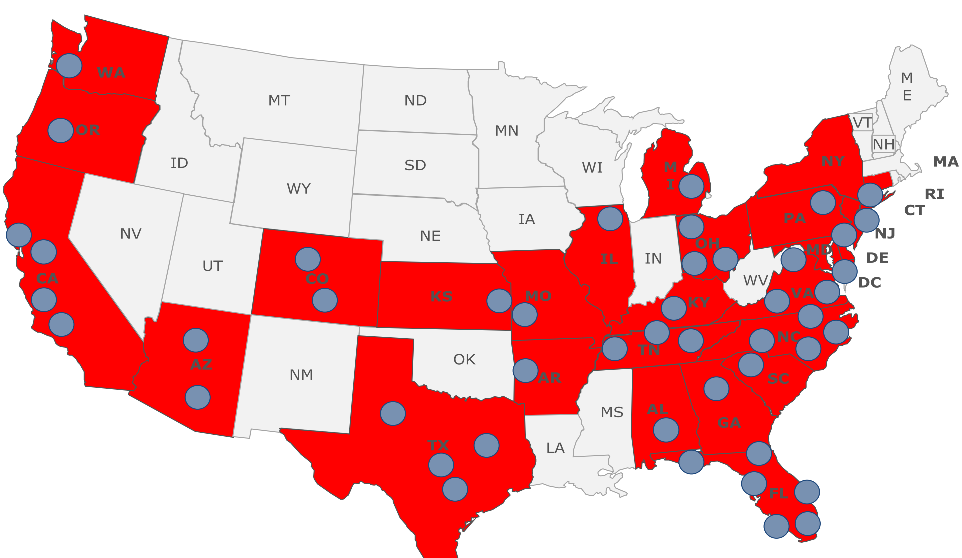


CALDERA ON THE MAP

CALDERA
Asset Management

We bring a wealth of experience that covers virtually all aspects of the multifamily industry.

- Restructuring and recapitalization of portfolios as well as one-off assets
- Loan renegotiations
- Asset management
- Executive experience
  - Public REITS
  - Private REITS
  - Pension fund advisors
  - Entrepreneurial firms
- Experience in direct ownership of all classes of apartment assets (A, B and C)
- Financing support
- NOI maximization



Multifamily Properties Acquired, Sold, Recapitalized, and/or Asset Managed

Caldera in the News:

Bloomberg

[Apartment Investors Not Scared by Vinyl Siding in Search for Yield]
March 2011

MULTIFAMILY EXECUTIVE

[MFE Pop Quiz: Delinquencies still an issue]
February 2011

MORNINGSTAR

[Recapitalization of Seven Springs, D.C.]
January 2011

[The Health of Commercial Real Estate]

[Diamond District: More Real Estate Woes]

RAM ON THE MAP

Smart MOVE. Smart LIFE.

As a third-party management company, we view our clients as partners not competitors. We share with our clients the mutual desire to offer residents the highest level of quality for each and every one of the properties we manage.

- RAM Partners, LLC® is an ACCREDITED MANAGEMENT ORGANIZATION®; The Institute of Real Estate Management ("AMO") awards its highest designation to companies which have met stringent standards of experience, financial stability, integrity and ethics. Only six percent of all management companies in the US are accepted into the AMO program.
- The four executive principals at RAM have almost 2 decades of working together and have over 60,000 units nationwide.
- Services and Experience

RAM Services include:

- On-site property management and maintenance
- Construction management
- Accounting and report management
- Acquisition and disposition support
- Property and insurance services

Extensive management experience in:

- Conventional garden apartments
- Mid-rise / High-rise
- Unsuccessful condominium developments
- Student housing

HOW WE MAKE CLIENTS' LIFE EASIER AND MORE EFFICIENT

- We focus exclusively on multifamily assets. Our combined expertise spans across all aspects of multifamily operations including asset and property management, repositioning, acquisitions, turnaround, and recapitalization.
- We have the ability to leverage our internal staff and existing local relationships in an effective manner. This allows us to quickly deploy personnel to specific properties and markets. Most other property/asset management firms are regionalized or based on a regional partner model which may lead to inconsistencies in talent, reporting and information flow.
- Both firms are employee owned with the overriding goal of professionally servicing our clients.
- We are dedicated to solving complex problems which arise with distressed assets, boosting operations and improving performances in order to achieve optimal values. Our focus is identifying and implementing an action-oriented approach with a sense of urgency, and we seek to perfect strategies which best optimize the core strengths of each asset given its position within the market.
- We offer lenders and loan servicers the convenience and the efficiency of one-stop shopping. Our principals have a long history of working with a wide range of institutional and private clients.

"We are an independent third-party resource that is not dependent on mortgage or sales broker services."

CONTACT INFORMATION

MIKE KELLY
President
Caldera Asset Management
7400 E. Orchard Road
Suite 250 South
Greenwood Village, CO 80111
Phone: (303) 857-5673
mkelly@calderaassetmanagement.com

BILL LESEMAN
Chairman
RAM Partners, LLC
One Overton Park
3625 Cumberland Blvd. Suite 440
Atlanta, GA 30339
Phone: (770) 437-5202
bleseman@rampartnersllc.com

KARSANG SHERPA
Senior Vice President
Caldera Asset Management
7400 E. Orchard Road
Suite 250 South
Greenwood Village, CO 80111
Phone: (303) 857-5674
ksherpa@calderaassetmanagement.com