

# CAPITAL MARKETS REVIEW

*Shopping Center Business* presents Capital Markets Review compiled by Gary Saykaly and Van Barron. Based in Atlanta, Saykaly and Barron are managing partners of BridgePointe Advisors (a merger between NewBridge Retail Advisors and CRE Funding). BridgePointe is an entity that creates wealth for its clients' real estate portfolios through innovative capital and investment solutions, including debt, equity, joint ventures and investment sales.

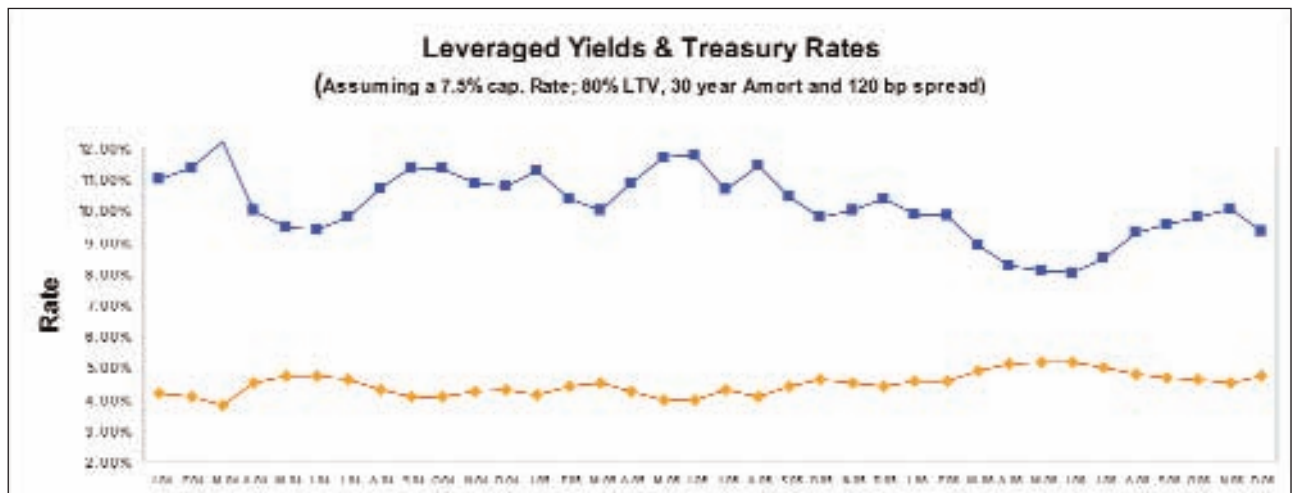
## Debt & Equity Securities Market

The major domestic equity indices posted double-digit returns in 2006 with the Russell 2000 outpacing the S&P 500 (15.79%), Dow Jones (16.29%) and Nasdaq (9.25%). The S&P Retail Index outperformed the S&P 500 Index in 2003 and 2004, but underperformed it in 2005 and 2006 (426 bps). See chart at right:



## Economic Drivers & Treasury Rates

The 10-year Treasury bond rate ended the year at its highest level in 5 years: 4.70% (a 33 bps increase from year-end 2005). After reaching a low of 4.41% (due to concerns over a slowing economy), rates increased 30 bps in the last 2 weeks of December as economic data was released showing stronger than expected economic growth.



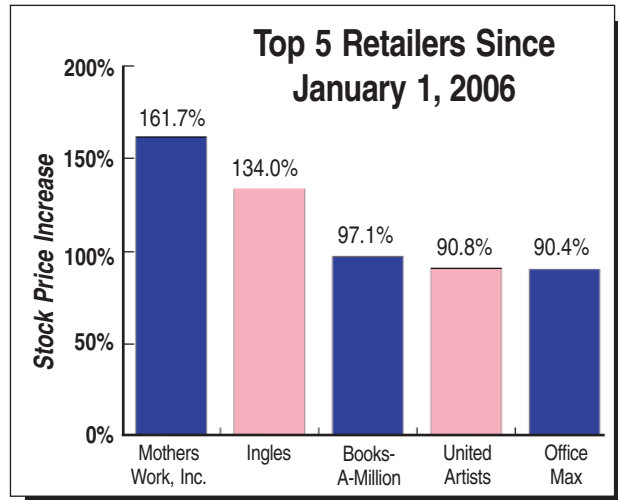
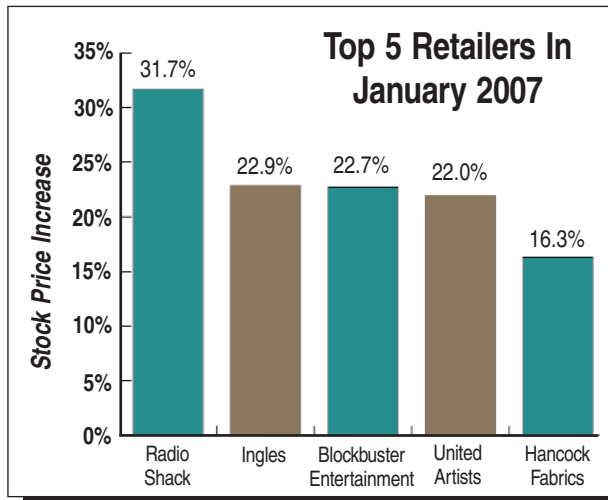
While the market was expecting a Fed-induced rate drop in the first quarter, these expectations decreased in December 2006 (as reflected by the futures market). In addition, the Fed appears to remain more focused on controlling inflation than worried about economic growth. While our domestic economic situation should dominate the direction of interest rates in the short term, the direction of global interest rates and the demand for money will have an impact long term. As shown below, Treasury bond yields have increased 5 bps to date in 2007.

Day	Treasury Rate	Treasury Market Driver
16-Jan	4.75%	Bond yields decreased due to a report showing softer than expected manufacturing data. This week's CPI and PPI index release will be closely monitored.
15-Jan	n/a	Markets were closed
12-Jan	4.78%	Bond yields increased to a 4 month high after a release of December retail sales which were stronger than expected. The report supported the view that the Fed would not cut rates in the near future. Interest rate Futures reflected this expectation.
11-Jan	4.74%	Bond yields increased for the 4th straight day due to an unexpected interest rate increase by the Bank of England (weak response to a bond offering). This increase raised concerns over rising global rates.
10-Jan	4.69%	Bond yields increased after data was released of a surprising reduction in the trade deficit and an increase in mortgage applications - reinforcing the opinion of a resilient economy. The incoming supply of government and corporate debt also added to the negative tone.
9-Jan	4.68%	Lack of economic data caused the market to remain flat for the day.
8-Jan	4.68%	Bond yields increased slightly as the market continued to react to the strong December jobs data released on Friday.
5-Jan	4.65%	Bond yields increased after a surprisingly strong jobs report (indicating a stronger and more resilient economy in Dec) reduced expectations of a Fed induced rate drop.
4-Jan	4.61%	Weaker than expected economic data caused traders to buy bonds thereby causing the yield to drop.
3-Jan	4.66%	Bond yields dropped on weak private sector jobs data and minutes from a previous Fed Reserve policy meeting showing a central bank wary of slowing economic growth.

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## Retailer Update



## SAME-STORE SALES

Same-store sales increased a moderate 3.1% (higher than the expected 2.5% forecast) in December 2006. According to the ICSC, leading sectors for the month were luxury chain stores (8.2%), drug stores (up 7.2%) and wholesale clubs (6.2%). Other sectors: department chain stores (up 2.3%), discount stores (up 2.3%), apparel chain stores (down 0.9%). Sales were impacted by the growing online shopping activities of consumers and the purchase of gift cards, which do not impact sales until redeemed. In that regard, the use of gift cards should help same-store sales in January and February 2007.



## RATINGS & LBOs

S&P Ratings Services stated in a report that ratings for retailers will see a negative trend in 2007 due to the pressure of additional debt and slowing consumer spending (the eventual impact of concerns over savings rates, a softening residential real estate market, increased energy costs and rates).

Retail leveraged buy-outs continued in 2006 with over nine LBOs completed by firms such as Sun Capital, Madison Dearborn, Bain Capital, etc.

Retail Leveraged Buyouts: 2004-2006	
Target Company	Buy-out Year
Eddie Bauer Holdings	2006
Yankee Candle	2006
Things Remembered	2006
Petco Animal Supplies	2006
Michaels Stores	2006
Lord & Taylor	2006
Whitehall Jewelers	2006
Sports Authority	2006
Burlington Coat Factory	2006
Linens' N Things	2005
Goody's Family Clothing	2005
ShopKo Stores	2005
Nelman Marcus	2005
Brookstone	2005
Toys R Us	2005
Loehmanns Holdings	2004

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## Retail REIT News

The U.S. REIT index delivered a total return of 35% for 2006, outperforming all major U.S. equity market benchmarks for the seventh straight year (according to NAREIT). REIT trends included:

- Increased focus on larger deal size to impact FFO.
- M&A and portfolio acquisition activity continued.
- Substantial inflow of capital from the public and private sector
- Development focus expanded via joint ventures and direct activity

Top 5 Retail REITs	%
Entertainment Prop Trst	44.28%
Saul Centers	35.34%
Ramco-Gershenson	34.38%
Regency Centers	32.91%
Simon Property Group	31.78%

	2001	2002	2003	2004	2005	2006
<b>REIT Sectors</b>						
Equity REIT Index	13.61	3.89	37.13	31.58	19.16	35.06
Industrial/Office	7.08	0.87	30.26	25.24	19.85	34.94
Apartment	8.88	8.75	25.49	34.71	14.89	39.59
Mult	-8.63	-1.49	31.89	32.7	5.78	28.17
<b>Retail</b>	<b>32.42</b>	<b>21.07</b>	<b>46.77</b>	<b>40.23</b>	<b>11.8</b>	<b>29.01</b>
<b>Retail REIT Sub Sectors</b>						
Shopping Centers	29.04	17.79	43.17	36.25	9.97	31.67
Regional Mall	31.84	24.56	50.24	45.115	76.64	29.48
Freestanding	29.19	21.78	38.91	32.87	0.49	39.14

## STOCK PRICE PERFORMANCE

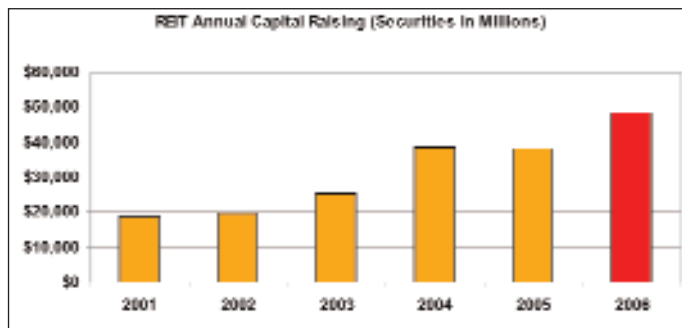
After leading the other REIT subsectors in 2001-2004, retail REITs started to be outpaced by other REIT subsectors per NAREIT. However, total returns in 2006 (appreciation and income) were very strong; 29.01%. While the regional mall subsector outperformed the other retail REIT sectors in 2005, the shopping center REIT subsector led the retail REIT sectors in 2006.

## M&A ACTIVITY

Retail REITs were extremely active in portfolio acquisitions and M&A activity. M&A activity in 2006 included: Kimco/Pan Pacific (\$4.1 billion); Centro Watt/Heritage Property Trust (\$3.2 billion); and DDR/Inland (\$6.2 billion). Weingarten was very active acquiring shopping center portfolios at the asset level (Woolbright Development and North American Property portfolios).

## CAPITAL RAISING

Capital for REITs came from both public market capital raising activity and joint ventures with institutional and off-shore investment groups. From a Public Markets perspective, the capital raising activity of REITs exceeded 2004 and 2005 levels by 25%+ (per NAREIT).



With the increased size of public REITs due to M&A and portfolio activity, look for REITs to continue focusing on larger deals that are accretive to its FFO.

SAMPLING JVs WITH CAPITAL PARTNERS	
REIT	JV PARTNER
Acadia Realty Trust	Lupert Adler
Developers Diversified	TIAA-CREF; Prudential
Equity One	Investcorp
Inland	Hernderson Global Investors
Kimco Realty	Prudential
Kite Realty	Prudential
New Plan	Calileo, A&W Capital
Ramco Gershenson	ING Clarion
Regency Centers	Macquarie
Weingarten Realty	AEW Capital, TIAA-CREF

MAJOR RETAIL REIT M&A ACTIVITY - 2006			
	TARGET	\$ PARTNER	\$ (bill)
Kimco Realty	Properties	Prudential	\$ 4.10
Centro Watt	Heritage Property Trust	Properties	\$ 3.20
Diversified	Inland East Coast	TIAA-CREF	\$ 6.20

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## Retail Investment Market

Overall trends we are seeing in the market include:

- Pricing divergence between Class A and B/C assets.
- Financial engineering increasingly utilized to “engineer” required returns.
- Increased use of joint ventures and partial interest sales.
- Emerging market for monetizing asset values via equity recapture structures.
- Ability of investors to take on more risk for the perception of upside and return. Investors continue to pour equity into high-yield funds.
- Traditional core/stabilized asset investors seeking value-added opportunities (including institutional, off-shore and TIC investors).

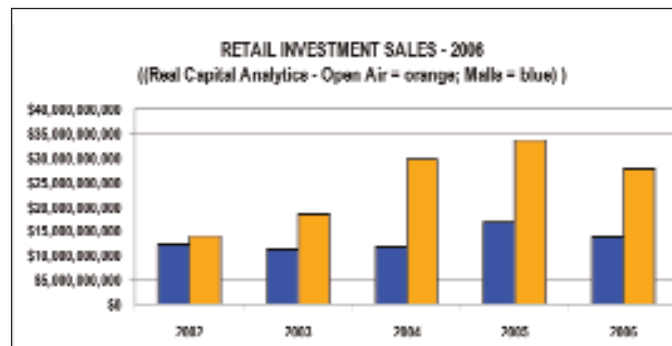
SAMPLING OF LARGE SINGLE ASSET RETAIL SALE TRANSACTIONS - 2006			
PROJECT	CITY/STATE	PRICE	BUYER TYPE
Mall of America	Minneapolis, MN	\$1,800,000,000	Offshore (partial interest)
Villa Marina Marketplace	Madrid del Rey, CA	\$400,000,000	Institutional
Valley River Center	Evansville, IN	\$787,000,000	Hell
Dalwin Hills Creekside Place	Los Angeles, CA	\$728,000,000	Institutional
Mount Pleasant Towne Ctr	Mount Pleasant, SC	\$134,775,000	Institutional
Providence at Sacramento Gateway	Sacramento, CA	\$100,000,000	Institutional
River East Center	Chicago, IL	\$717,500,000	Institutional/Private
Downey Landing Center	Downey, CA	\$110,000,000	Private Investment Group
The Shops At Rivercenter Place	Atlanta, GA	\$400,000,000	Offshore (partial interest)
UFC Loop	Roseland, RI	\$94,990,000	Institutional
Cherry Creek Shopping Ctr	Denver, CO	\$97,000,000	Private & Institutional
Casee Green Shopping Ctr	West Congo, NJ	\$80,000,000	Institutional

## TRANSACTIONAL ACTIVITY

According to *Real Capital Analytics*, investment sale transactions for both malls and open-air centers decreased approximately 17% in 2006. The decrease is probably due to a drop in completed portfolio transactions (vs. 2005), increased interest rates, and Class B/C product that did not “clear the market” given the divergence in pricing. (See chart below.)

There was over \$41 billion of activity in 2006, according to RCA. Our investment group saw significant transaction activity in the Southeast with investor interest from all the investor categories, including increased activity by California-based investors.

With the increasing size of retail and mixed-use projects, 2006 saw the sale of a number of significant retail projects:



# CAPITAL MARKETS REVIEW

The information contained in this section was accurate as of February 9, 2007.

## RETAIL REIT UPDATE

REIT	Stock Symbol	Dividend Yield	Current Price as of 2/9/07	Stock Price % Change From Previous Periods	
				1/11/07	1/3/06
<b>SHOPPING CENTER</b>					
Agree Realty Corp.	ADC	5.60%	\$35.11	3.81%	17.19%
Acadia Realty	AKR	3.00%	\$27.46	10.46%	34.94%
AmREIT	AMY	5.90%	\$8.60	4.24%	24.64%
Cedar Shopping Centers	CDR	5.40%	\$16.87	6.03%	21.72%
Developers Diversified Realty	DDR	3.40%	\$70.54	9.62%	47.57%
Equity One, Inc.	EQY	4.20%	\$28.38	5.46%	20.56%
Federal Realty Investment Trust	FRT	2.40%	\$94.97	10.88%	55.28%
Inland Real Estate Corp.	IRC	4.60%	\$20.83	6.93%	40.84%
Kimco Realty Corp.	KIM	2.80%	\$51.88	10.90%	58.51%
Kite Realty Group	KRG	3.80%	\$20.77	9.72%	37.01%
New Plan Excel	NXL	4.20%	\$30.29	8.88%	29.44%
Ramco-Gershenson	RPT	4.80%	\$37.78	0.83%	38.74%
Regency Centers	REG	2.90%	\$90.73	14.04%	51.49%
Saul Centers	BFS	3.00%	\$58.50	6.32%	56.08%
Urstadt-Biddle Properties	UBA	4.80%	\$19.20	4.92%	18.59%
Weingarten Realty	WRI	3.70%	\$51.91	8.48%	35.85%
<b>ENCLOSED MALL</b>					
CBL & Associates	CBL	4.10%	\$48.25	8.52%	18.49%
Feldman Mall Properties, Inc.	FMP	7.60%	\$11.93	-1.81%	-2.37%
General Growth Properties	GGP	2.80%	\$62.18	12.24%	29.84%
Glimcher Realty Trust	GRT	6.90%	\$28.66	7.62%	14.82%
The Macerich Company	MAC	2.80%	\$100.10	10.18%	46.62%
The Mills Corporation	MLS	N/A	\$26.20	72.03%	-36.87%
PREIT	PEI	5.20%	\$44.13	8.56%	17.46%
Simon Property Group	SPG	2.80%	\$118.22	11.89%	52.15%
Taubman Centers	TCO	2.50%	\$62.29	16.63%	74.09%
<b>FACTORY OUTLET</b>					
Tanger Factory	SKT	3.20%	\$42.89	10.48%	46.98%
<b>OTHER RETAIL REITS</b>					
Colonial Properties Trust	CLP	5.60%	\$48.95	3.38%	14.93%
Cousins Properties	CUZ	3.80%	\$37.82	4.36%	30.50%
Entertainment Properties Trust	EPR	4.20%	\$67.00	10.47%	65.02%
National Retail Properties	NNN	5.30%	\$24.89	7.66%	20.47%
<b>PUBLICLY HELD COMPANIES</b>					
CB Richard Ellis <sup>1</sup>	CBG	N/A	\$36.66	4.92%	82.39%
Forest City Enterprises	FCEA	N/A	\$62.10	8.30%	66.31%
Jones Lang LaSalle	JLL	0.70%	\$104.06	11.57%	97.27%

<sup>1</sup> Price adjusted due to 3:1 stock split on June 2, 2006.

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This information was compiled by W. Van Barron of BridgePointe Advisors.

## RETAILER STOCK AND CREDIT SUMMARY

Tenant	Stock Symbol	Moody's Credit Rating as of 8/11/06	Current Price as of 1/31/07	Stock Price % Change From Previous Periods	
				12/29/06	1/1/06
<b>DISCOUNTERS</b>					
BJ's Wholesale Club	BJ	NR	\$30.54	-1.83%	3.32%
Big Lots, Inc.	BIG	NR	\$25.93	33.25%	154.29%
Costco	COST	A2	\$56.16	6.22%	13.52%
T.J. Maxx	TJX	A3	\$29.57	3.68%	27.29%
Target	TGT	A2	\$61.36	7.55%	11.62%
Wal-Mart	WMT	Aa2	\$47.69	3.27%	1.90%
<b>SPECIALTY STORES</b>					
AutoZone	AZO	Baa2	\$125.63	8.71%	36.93%
Barnes & Noble	BKS	WR	\$38.93	-1.96%	-8.76%
Bed Bath & Beyond	BBBY	NR	\$42.19	10.73%	16.71%
Best Buy	BBY	Baa2**	\$50.40	2.46%	15.92%
Books-A-Million	BAMME	NR	\$19.10	-15.78%	97.11%
Borders Books	BGP	NR	\$20.98	-6.13%	-3.18%
Circuit City	CC	NR	\$20.14	7.53%	-9.65%
Dollar General	DG	Ba1	\$16.94	5.81%	-11.17%
Family Dollar	FDO	NR	\$32.40	10.47%	30.70%
Foot Locker	FL	NR	\$22.44	2.33%	-4.87%
Gateway Computer	GTW	WR	\$2.05	1.99%	-18.33%
Gap, Inc.	GPS	Baa3+	\$19.17	-1.69%	8.67%
Hancock Fabrics	HKF	NR	\$4.00	16.28%	-1.72%
Hibbett Sporting Goods	HIBB	NR	\$32.11	5.18%	12.75%
The Home Depot	HD	Aa3	\$40.74	1.44%	0.64%
Limited	LTD	Baa2	\$27.94	-3.46%	25.01%
Lowe's***	LOW	A2	\$33.71	8.22%	1.14%
Mothers Work, Inc.	MWRK	NR	\$33.45	-15.08%	161.74%
Office Depot	ODP	Baa3**	\$37.39	-2.04%	19.08%
Office Max	OMX	Ba2	\$48.29	-2.74%	90.42%
Payless Shoe Source	PSS	B2	\$33.95	3.44%	35.26%
Pep Boys	PBY	B1+	\$15.31	3.52%	2.82%
PetSmart	PETM	Ba2+	\$30.54	5.82%	19.02%
Pier 1 Imports	PIR	B1	\$6.77	13.78%	-22.45%
RadioShack	RSH	Baa2**	\$22.10	31.70%	5.09%
Regis Corporation	RGS	NR	\$41.79	5.69%	8.35%
Ross Dress For Less	ROST	NR	\$32.39	10.55%	12.08%
Sherwin-Williams	SHW	A3	\$69.10	8.68%	52.14%
Staples	SPLS	Baa2	\$25.72	-3.67%	13.25%
Starbucks	SBUX	0	\$34.94	-1.36%	16.43%
West Marine	WMAR	NR	\$17.42	0.87%	24.61%

All ratings are senior unsecured unless otherwise noted.

+ Senior Implied 1 On review for possible upgrade

Rating decreased ▼ Rating increased ▲

NR No rated issues

2 Rating lowered

WR Withdrawn

3 On review for possible downgrade

\* Senior Subordinate

\*\* Issuer Rating

4 Bank credit facility

\*\*\* Lowe's Home Improvement Centers underwent a 2:1 stock split.

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## RETAILER STOCK AND CREDIT SUMMARY

Tenant	Stock Symbol	Moody's Credit Rating as of 8/11/06	Current Price as of 1/31/07	Stock Price % Change From Previous Periods	
				12/29/06	1/1/06
<b>DEPARTMENT STORES</b>					
JC Penney Federated***	JCP	Baa3	\$81.24	5.02%	46.12%
Kohl's Corp.	FD	Baa1	\$41.49	8.81%	25.10%
Dillard's	KSS	A3	\$70.91	3.62%	45.91%
Nordstrom	DDS	B2	\$34.34	-1.80%	38.36%
Saks Inc.	JWN	Baa1	\$55.71	12.91%	48.96%
Stein Mart, Inc.	SKS	B2	\$18.76	5.27%	11.27%
	SMRT	NR	\$13.51	1.89%	-25.56%
<b>DRUG STORES</b>					
CVS	CVS	Baa2	\$33.65	8.86%	27.37%
Longs Drugs	LDG	NR	\$43.00	1.46%	18.16%
Rite-Aid	RAD	Caa1	\$6.16	13.24%	77.01%
Walgreens	WAG	Aa3**	\$45.30	-1.29%	2.35%
<b>GROCERY STORES</b>					
A&P	GAP	Caa1	\$28.87	12.16%	-9.16%
Bi-Lo	AHO	NR	\$10.10	-4.54%	34.13%
Food Lion	DEG	NR	\$83.33	0.06%	27.28%
Ingles	IMKTE	B3*	\$36.62	22.93%	133.99%
Kroger	KR	Baa2	\$25.60	10.97%	35.59%
Pathmark	PTMK	Caa2*	\$10.96	-1.70%	9.71%
Safeway	SWY	Baa2**	\$36.03	4.25%	52.28%
Smart & Final	SMF	NR	\$18.54	-1.90%	43.94%
Supervalu	SVU	B2	\$37.98	6.24%	16.93%
Weis Markets	WMK	NR	\$43.28	7.90%	-44.08%
Whole Foods	WFMI	Ba1	\$43.19	-7.97%	0.35%
<b>LEISURE &amp; RECREATION</b>					
Bally Total Fitness	BFT	Caa1	\$1.98	-19.18%	-68.47%
Blockbuster Entertainment	BBI	Caa3*	\$6.49	22.68%	73.07%
Regal Entertainment Group	RGC	B3	\$22.50	5.53%	18.30%
United Artists	MGM	WR	\$69.97	22.01%	90.81%

All ratings are senior unsecured unless otherwise noted.  
 + Senior Implied 1 On review for possible upgrade  
 Rating decreased ▼ Rating increased ▲

NR No rated issues WR Withdrawn \* Senior Subordinate \*\* Issuer Rating  
 2 Rating lowered 3 On review for possible downgrade 4 Bank credit facility

\*\*\* Federated Department Stores underwent a 2:1 stock split.

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This information was compiled by Tim Radomski of BridgePointe Advisors.

## RATE WATCH

MARCH  
2007

FROM BRIDGEPOINTE ADVISORS

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[www.bridgepointeadvisors.com](http://www.bridgepointeadvisors.com) or call (404) 446-4900.

### MARKET PULSE

The information below is compiled on a monthly basis by BridgePointe Advisors (BPA) and represents actual quotes on properties represented by BPA, from lenders representing a cross-section of the lending community. BPA reaches hundreds of commercial lenders offering a very comprehensive sample of the finance landscape. All spreads are for 10-year fixed-rate loans using the 10-year Treasury Index unless otherwise designated. The indicated rate is based upon the 10-year Treasury Index (4.78%) on February 7, 2007.

PROPERTY TYPE	LEVERAGE	DSCR	SPREAD	INDICATED RATE
Grocery Anchored Retail	85% LTV	1.10X	105	5.83%
Strong Anchored Retail	80% LTV	1.10X	95	5.73%
Weak Anchored Retail	75% LTV	1.20X	115	5.93%
Unanchored Retail	75% LTV	1.20X	125	6.03%
Single Tenant Retail—A+ credit (1)	90% LTV	1.01X	95	5.73%
Single Tenant Retail—A+ credit	80% LTV	1.01X	95	5.73%
Single Tenant Retail—A credit drug	80% LTV	1.01X	110	5.88%
Single Tenant Retail—BBB- credit drug	75% LTV	1.15X	125	6.03%
Single Tenant Retail Non investment	75% LTV	1.30X	150	6.28%
High End Specialty Retail	80% LTV	1.15X	105	5.83%
High End Urban Retail	80% LTV	1.15X	105	5.83%
Mixed Use Urban Office / Retail	80% LTV	1.20X	115	5.93%

### CAPITAL SOLUTION — EQUITY FROM DEBT RESTRICTED ASSETS

As I said last month, there is potential capital in many currently owned assets, and refinancing is one way to access that capital. However, due to the restrictive terms of existing debt, owners may not be able to pursue refinancing, mezzanine loans or disposition.

Another way to pull out capital is through a structured equity recapture program. Depending on the prohibitions in the existing senior debt, the equity recap-

ture can be secured by an assignment of partnership interests or can be a sale of a direct interest in the partnership, which is then repaid at maturity with a fixed yield. Typically, no participation in the upside is taken but rather a simple overall yield (below 10%). In either case, the owner(s) maintains control of the property/portfolio while unlocking embedded equity without an outstanding right of sale of the real estate.

Unlike a property sale where the owner is immediately subject to a capital gains tax, having a capital source “invest” in your existing partnership does not generate a taxable event — therefore, giving you tax-free capital to provide existing partners an exit strategy, redeploy capital for new investments or recapitalize existing real estate holdings.