

# CAPITAL MARKETS REVIEW

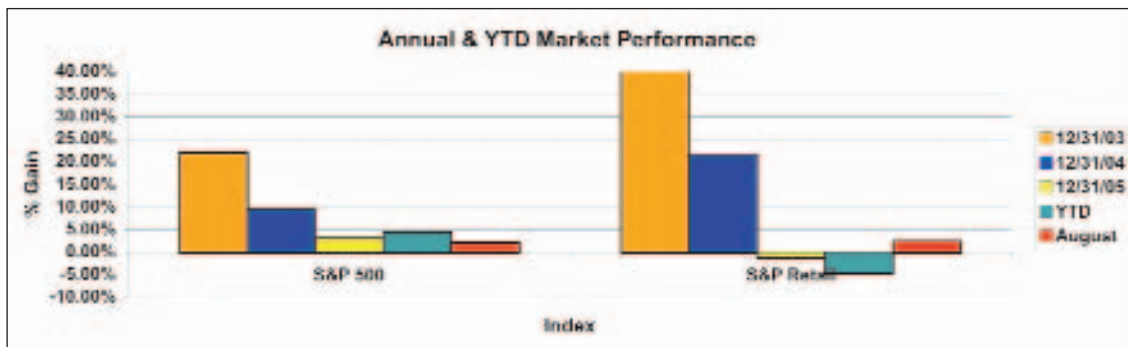
*Shopping Center Business* presents Capital Markets Review compiled by Gary Saykaly and Van Barron. Based in Atlanta, Saykaly and Barron are managing partners of BridgePointe Advisors (a merger between NewBridge Retail Advisors and CREFunding). BridgePointe is an entity that creates wealth for its clients'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

## Debt & Equity Securities Market

The broad stock market indices were up for the month of August with the Nasdaq being the clear leader. The S&P Retail Index and the REIT indices basically tracked the broader market.

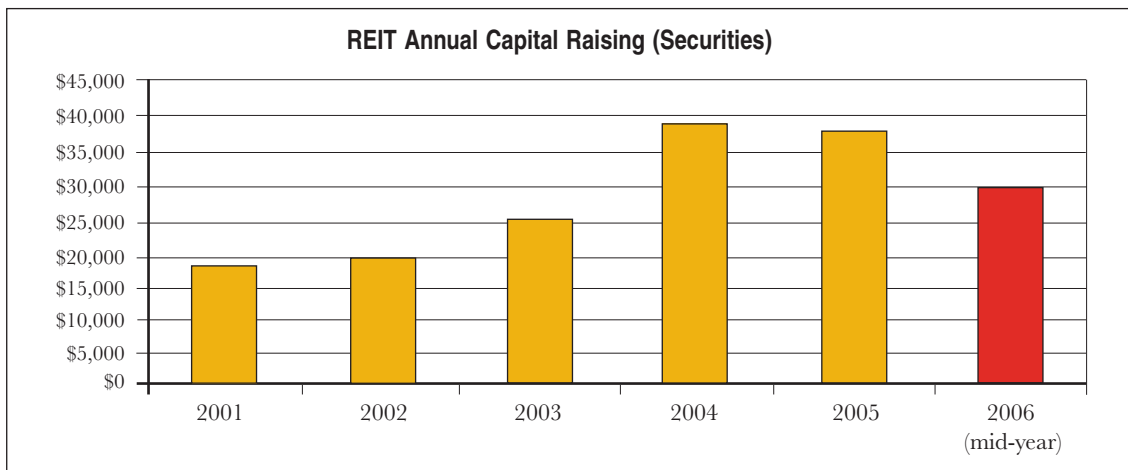
Broad Market Indices			Retail / Retail REIT Indices			Debt Rates	
Index	8/31/06	Mo. change	Index	8/31/06	Mo. change	Index	Yield
DJ Ind	11,464	1.75%	S&P Retail	435.1	2.44%	10 Yr Treasury	4.74%
S&P 500	1,304	2.13%	DJ RE Index	239.4	3.15%	Corp AAA	4.66%
Nasdaq	2,193	4.41%	Retail REIT	606.8	2.35%	Corp AA	4.71%
Mixed market performance			REITs outperform.			Corp A	4.84%
						LIBOR - 3 mo	5.40%

The S&P Retail Index outperformed the S&P 500 Index in 2003 and 2004, underperformed it in 2005, tracked it in the first quarter, and year-to-date it is underperforming it by 900 basis points. However, during August, the Retail Index did outperform the S&P 500.



## REIT News / Performance

The REIT indexes slightly outperformed the broader market but the retail REIT sector underperformed the other REIT sectors (except for the office sector). The majority of retail REITs (60%) did outperform the S&P 500. Entertainment Property Trust and Equity One each posted 15%+ increases. Capital raising activity of the REITs for 2006 (primarily unsecured debt or common stock) is approximately \$30 billion and could exceed the \$40 billion raised in 2005.



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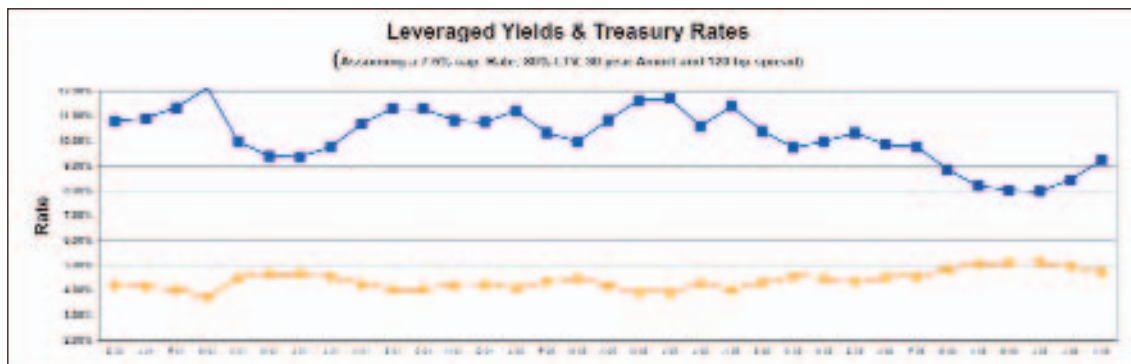
This information was compiled by Gary T. Saykaly of BridgePointe Advisors.

## Economic Drivers & Treasury Rates

Weak economic data, increasing signs of a housing market slowdown, and actions/statements of the Fed Reserve helped treasury bond yields (10-year) drop 25 basis points in August. After 17 consecutive interest rate increases, the Federal Reserve did not raise rates in its August meeting. While rates have come down, they could edge back up if there is consistent economic data released in September showing economic strength. However, this could be offset by any further evidence of a housing market slowdown.

After dropping significantly the first 3 weeks of August, treasury bond yields have basically hovered around 4.80% for the last 2 weeks (as of September 6, 2006):

DAY	TREAS. RATE	TREASURY MARKET DRIVER
6-Sep	4.80%	Robust data on labor costs and service sector growth caused concerns in the market, causing yields to increase.
5-Sep	4.77%	Yields were up on profit-taking as there was little economic data to sway the market.
1-Sep	4.72%	A number of economic data points supported views of moderating growth (including a drop in pending new home sales).
31-Aug	4.73%	The bond market rally continued as the Fed's favored inflation gauge rose less than expected. In addition, comments from the Federal Reserve chairman left the market more relaxed over the inflation outlook.
30-Aug	4.76%	Yields dropped on solid demand at the treasury bond auction and government data showing core inflation was lower than expected.
29-Aug	4.78%	Treasury yields sank to a 5-month low due to feedback from the Fed meeting which indicated a potential concern over the economy. The Fed took a pause in increasing rates after 17 consecutive increases.
28-Aug	4.80%	Yields bumped up slightly after two straight weeks of decreasing yields as bond traders took profits.
25-Aug	4.79%	A speech by the Federal Reserve chairman made no mention of inflation, causing yields to drop.
24-Aug	4.81%	The inversion of the 2- and 10-year bond yields hit the widest point since early March. Yields dropped as investors bet the Fed would keep rates on hold in the short term as forecasted economic data was lower than expected and confirmed an economic shutdown.



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## Retail Debt Markets

With rates dropping and the health of the debt market, it is a great opportunity for owners/investors to address their capitalization requirements strategically. While the market is competitive, not all flavors (lenders) are the same. In this market, it does make sense to analyze a variety of lender programs and options. The cost for building flexibility into CMBS loan is pretty minimal. BridgePointe Advisors continues to have great success in structured finance deals where the developer is interested in maximizing the “cap stack” and minimizing its equity contribution and ownership dilution. A great option for developers and owners to hedge their interest rate risk is a forward rate lock commitment where the premium is nearly non-existent.

### BridgePointe Advisors Debt Desk

Spreads	Low	High
Mall	92	134
Big Box	85	118
Grocery	80	110
Unanchored	98	140

- Assumes 75% to 80% LTV
- Spread above treasuries

BridgePointe Lending Barometer	
Loan Volume	Rates down; volume is strong.
Rate Spread	Spreads remain tight for most property types.
Rates	Interest rates down recently.
Underwriting	Lender underwriting is “deal friendly” and varied.
Lender Sentiment	Ample capital, deal short, and competitive.
Borrower Demand	Strong demand due to recent index decreases.

## CAPITAL “STACK” – STRUCTURING CONSIDERATIONS / IDEAS / TRENDS

<b>First Mortgage</b>	Think about interest-only for a portion of the loan term to increase equity yield. Also, for new developments, consider non-recourse construction financing (recourse \$\$ is not the only option). Long rate locks are cheap.
<b>Junior / Mezzanine Debt Financing</b>	For stabilized properties, junior debt can be very cheap for partner buyouts, property improvements or equity repayment. Leverage to 90% of value is available on top of existing senior debt. Unlike traditional high cost mezzanine loans, pension funds can lend at low rates and take minority shares. Non-participating junior financing is available.
<b>Preferred Equity</b>	Lots of high leverage cheap money available. Available equity from off-shore, domestic institutions, and private investors with minimal co-investment required. Certain investors will structure the equity piece as a mezzanine loan without any ownership.
<b>Joint Ventures</b>	There is no shortage of capital sources and developers that are interested in joint venture opportunities — for new developments, redevelopments and acquisitions. Joint venture partners are open to considering a variety of structures.

## Loan Constants & Leveraged Yields

### Loan Constants

Loan Spread	Amortization Period		
	20	25	30
0.80	8.28%	7.39%	6.84%
0.90	8.35%	7.47%	6.92%
1.00	8.42%	7.54%	6.99%
1.10	8.48%	7.61%	7.07%
1.20	8.55%	7.68%	7.15%
1.30	8.62%	7.76%	7.22%
1.40	8.69%	7.83%	7.30%
1.50	8.76%	7.91%	7.38%

### Leveraged Yields - 30 Year Amortization

Loan Spread	Cap Rate		
	7.00%	7.50%	8.00%
0.80	7.64%	10.14%	12.64%
1.00	7.03%	9.53%	12.03%
1.20	6.42%	8.92%	11.42%
1.50	5.49%	7.99%	10.49%

### Leveraged Yields - 25 Year Amortization

Loan Spread	Cap Rate		
	7.00%	7.50%	8.00%
0.80	5.42%	7.92%	10.42%
1.00	4.84%	7.34%	9.84%
1.20	4.26%	6.76%	9.26%
1.50	3.38%	5.88%	8.38%

The 25 basis point decrease in treasury yields for the month of August has caused potential leveraged yields to increase 78 basis points. Loan constants are now at 7%, meaning that any property purchased at cap rates above that level produces positive leverage (assuming amortizing debt).

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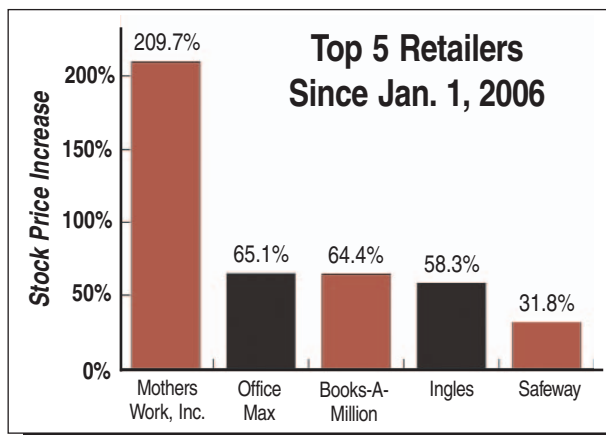
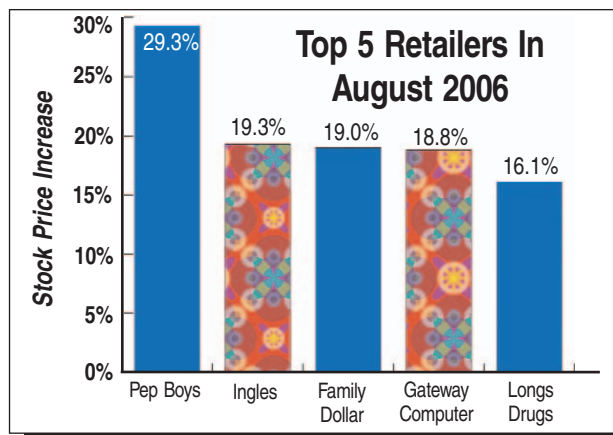
## Retailer Update

### Stock Price Performance (month change)

Top Performing Sectors	%
<b>Sporting Goods</b>	<b>9.84%</b>
Department Stores	5.21%
Drug Stores	4.63%
Grocers	4.38%
Specialty – Other	3.43%

Top Retailers	%
<b>Ingles</b>	<b>27.68%</b>
<b>Hibbett Sporting Goods</b>	<b>24.14%</b>
Men's Wearhouse	13.95%
Big Lots	13.55%
Dick's Sporting Goods	13.51%

While the S&P Retail Index is underperforming the S&P 500 for the year, the retail index did outperform the S&P 500 Index by 30 basis points in August 2006. The Sporting Goods sector posted the best performance. Aside from the retailers noted above, Pathmark, Family Dollar, Pep Boys, RadioShack, Bon Ton and Kohl's each posted 10% + gains in August. Bombay, Cost Plus, Costco and Saks each posted double-digit losses for the month. Same store sales posted a small increase of 2.9% which was below the forecast of 3% to 3.5%. Wholesale Clubs and Discounters posted the best same store sales gains. Specialty retailers posted a same store sales increase of 0.8% but the results were mixed for the retailers in the sector.



# CAPITAL MARKETS REVIEW

The information contained in this section was accurate as of September 8, 2006.

## RETAIL REIT UPDATE

REIT	Stock Symbol	Dividend Yield	Current Price as of 9/8/06	Stock Price % Change From Previous Periods	
				8/10/06	1/3/06
<b>SHOPPING CENTER</b>					
Agree Realty Corp.	ADC	5.90%	\$32.95	3.19%	9.98%
Acadia Realty	AKR	3.00%	\$24.63	5.84%	21.03%
AmREIT	AMY	6.90%	\$7.17	1.27%	3.91%
Cedar Shopping Centers	CDR	5.90%	\$15.34	5.65%	10.68%
Developers Diversified Realty	DDR	4.30%	\$54.88	5.34%	14.81%
Equity One, Inc.	EQY	4.80%	\$25.01	3.82%	6.24%
Federal Realty Investment Trust	FRT	3.00%	\$74.45	3.63%	21.73%
Heritage Prop. Investment Trust	HTG	5.80%	\$36.40	0.61%	6.78%
Inland Real Estate Corp.	IRC	6.00%	\$15.93	0.13%	7.71%
Kimco Realty Corp.	KIM	3.20%	\$41.42	5.69%	26.55%
Kite Realty Group	KRG	4.80%	\$16.10	5.64%	6.20%
New Plan Excel	NXL	4.70%	\$26.37	2.29%	12.69%
Pan Pacific	PNP	3.70%	\$70.00	1.11%	3.97%
Ramco-Gershenson	RPT	5.80%	\$30.73	1.86%	12.85%
Regency Centers	REG	3.50%	\$67.23	6.24%	12.26%
Saul Centers	BFS	4.00%	\$42.16	6.55%	12.49%
Urstadt-Biddle Properties	UBA	5.10%	\$17.48	6.26%	7.97%
Weingarten Realty	WRI	4.50%	\$41.58	4.16%	8.82%
<b>ENCLOSED MALL</b>					
CBL & Associates	CBL	4.50%	\$40.69	6.55%	-0.07%
Feldman Mall Properties, Inc.	FMP	8.40%	\$10.80	-0.92%	-11.62%
General Growth Properties	GGP	3.60%	\$45.79	3.83%	-4.39%
Glimcher Realty Trust	GRT	8.10%	\$23.83	0.97%	-4.53%
The Macerich Company	MAC	3.70%	\$73.70	3.85%	7.95%
The Mills Corporation	MLS	5.60%	\$18.00	-20.32%	-56.63%
PREIT	PEI	5.50%	\$41.38	3.58%	10.14%
Simon Property Group	SPG	3.50%	\$86.62	4.63%	11.48%
Taubman Centers	TCO	3.00%	\$41.08	3.35%	14.81%
<b>FACTORY OUTLET</b>					
Tanger Factory	SKT	3.90%	\$35.15	14.83%	20.46%
<b>OTHER RETAIL REITS</b>					
Colonial Properties Trust	CLP	5.60%	\$48.67	4.08%	14.28%
Cousins Properties	CUZ	4.30%	\$34.45	6.72%	18.88%
Entertainment Properties Trust	EPR	5.60%	\$49.27	7.02%	21.35%
National Retail Properties	NNN	6.30%	\$21.41	3.18%	3.63%
Sizeler Property	SIZ	2.70%	\$15.08	2.17%	16.81%
Trizec Properties	TRZ	2.80%	\$28.71	0.07%	23.38%
<b>PUBLICLY HELD COMPANIES</b>					
CB Richard Ellis <sup>1</sup>	CBG	N/A	\$23.49	12.28%	16.87%
Forest City Enterprises	FCEA	0.00%	\$52.90	7.61%	41.67%
Jones Lang LaSalle	JLL	0.60%	\$82.90	7.73%	57.16%

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

# CAPITAL MARKETS REVIEW

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 9/1/06	Stock Price % Change From Previous Periods	
				8/1/06	1/1/06
<b>DISCOUNTERS</b>					
BJ's Wholesale Club	BJ	NR	\$26.25	-7.57%	-11.20%
Big Lots, Inc.	BIG	NR	\$18.30	13.59%	52.37%
Costco	COST	A2	\$47.35	-9.38%	-4.29%
T.J. Maxx	TJX	A3	\$26.82	10.55%	15.45%
Target	TGT	A2	\$48.95	7.11%	-10.95%
Wal-Mart	WMT	Aa2	\$45.45	2.74%	-2.88%
<b>SPECIALTY STORES</b>					
AutoZone	AZO	Baa2	\$91.25	3.29%	-0.54%
Barnes & Noble	BKS	WR	\$36.51	10.70%	-14.44%
Bed Bath & Beyond	BBBY	NR	\$34.25	1.60%	-5.26%
Best Buy	BBY	Baa2**	\$47.33	3.45%	8.85%
Books-A-Million	BAMME	NR	\$15.93	7.85%	64.40%
Borders Books	BGP	NR	\$19.01	-0.31%	-12.28%
Circuit City	CC	NR	\$23.56	-1.05%	4.29%
Dollar General	DG	Ba1	\$12.61	-5.61%	-33.88%
Family Dollar	FDO	NR	\$26.29	18.96%	6.05%
Foot Locker	FL	NR	\$24.31	-8.85%	3.05%
Gateway Computer	GTW	WR	\$1.90	18.75%	-24.30%
Gap, Inc.	GPS	Baa3+	\$16.90	-0.88%	-4.20%
Hancock Fabrics	HKF	NR	\$3.04	-7.88%	-25.31%
Hibbett Sporting Goods	HIBB	NR	\$24.20	20.76%	-15.03%
The Home Depot	HD	Aa3	\$34.64	1.58%	-14.43%
Limited	LTD	Baa2	\$25.97	6.04%	16.20%
Lowe's***	LOW	A2	\$27.33	-2.71%	-18.00%
Michaels	MIKE	WR	\$43.14	1.01%	21.97%
Mothers Work, Inc.	MWRK	NR	\$39.58	10.68%	209.70%
Office Depot	ODP	Baa3**	\$36.92	-1.15%	17.58%
Office Max	OMX	Ba2	\$41.88	6.35%	65.14%
Payless Shoe Source	PSS	B2	\$24.02	-4.30%	-4.30%
Pep Boys	PBY	B1+	\$12.99	29.25%	-12.76%
PetsMart	PETM	Ba2+	\$25.18	6.74%	-1.87%
Pier 1 Imports	PIR	B1	\$6.45	-0.92%	-26.12%
RadioShack	RSH	Baa2**	\$18.26	9.54%	-13.17%
Regis Corporation	RGS	NR	\$36.99	10.09%	-4.10%
Ross Dress For Less	ROST	NR	\$24.91	2.01%	-13.81%
Sherwin-Williams	SHW	A3	\$51.41	1.82%	13.19%
Staples	SPLS	Baa2	\$22.67	4.91%	-0.18%
West Marine	WMAR	NR	\$13.66	10.97%	-2.29%

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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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 9/1/06	Stock Price % Change From Previous Periods	
				8/1/06	1/1/06
<b>DEPARTMENT STORES</b>					
JC Penney	JCP	Baa3	\$64.05	0.03%	15.20%
Federated***	FD	Baa1	\$38.79	12.93%	16.96%
Kohl's Corp.	KSS	A3	\$63.45	10.95%	30.56%
Dillard's	DDS	B2	\$31.80	6.11%	28.12%
Nordstrom	JWN	Baa1	\$37.94	12.95%	1.44%
Saks Inc.	SKS	B2	\$14.53	-8.15%	-13.82%
Sears	S	Ba1**	\$17.09	-14.81%	-26.84%
Stein Mart, Inc.	SMRT	NR	\$12.09	-1.79%	-33.39%
<b>DRUG STORES</b>					
CVS	CVS	Baa2	\$33.96	2.32%	28.54%
Longs Drugs	LDG	NR	\$46.49	16.08%	27.75%
Rite-Aid	RAD	Caa1	\$4.32	-2.04%	24.14%
Walgreens	WAG	Aa3**	\$49.85	5.08%	12.63%
<b>GROCERY STORES</b>					
A&P	GAP	Caa1	\$23.07	1.27%	-27.41%
Bi-Lo	AHO	NR	\$9.58	6.33%	27.22%
Food Lion	DEG	NR	\$76.82	4.46%	17.34%
Ingles	IMKTE	B3*	\$24.77	19.26%	58.27%
Kroger	KR	Baa2	\$23.76	4.85%	25.85%
Pathmark	PTMK	Caa2*	\$9.82	13.53%	-1.70%
Safeway	SWY	Baa2**	\$31.18	9.40%	31.78%
Smart & Final	SMF	NR	\$16.64	7.70%	29.19%
Supervalu	SVU	B2	\$28.82	5.92%	-11.27%
Weis Markets	WMK	NR	\$39.60	0.61%	-7.99%
Whole Foods	WFMI	Ba1	\$53.54	5.10%	-30.82%
<b>LEISURE &amp; RECREATION</b>					
Bally Total Fitness	BFT	Caa1	\$2.83	-47.98%	-54.94%
Blockbuster Entertainment	BBI	Caa3*	\$3.99	5.28%	6.40%
Regal Entertainment Group	RGC	B3	\$19.61	1.71%	3.10%
United Artists	MGM	WR	\$35.22	-6.80%	-3.95%

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.

# CAPITAL MARKETS REVIEW

This information was compiled by Tim Radomski of CREFunding

## RATE WATCH

OCTOBER  
2006

FROM CREFUNDING

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[www.crefunding.com](http://www.crefunding.com) or call toll-free at (866) 671-CREF

### MARKET PULSE

The information below is compiled on a monthly basis by CREFunding and represents actual quotes on properties represented by CREFunding, from lenders representing a cross-section of the lending community. CREFunding 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 (4.82%) on September 6, 2006.

PROPERTY TYPE	LEVERAGE	DSCR	SPREAD	INDICATED RATE
Grocery Anchored Retail	80% LTV	1.20X	105	5.87%
Strong Anchored Retail	80% LTV	1.30X	95	5.77%
Weak Anchored Retail	75% LTV	1.30X	115	5.97%
Unanchored Retail	75% LTV	1.30X	125	6.07%
Single Tenant Retail—A+ credit (1)	90% LTV	1.01X	95	5.77%
Single Tenant Retail—A+ credit	80% LTV	1.01X	95	5.77%
Single Tenant Retail—A credit drug	80% LTV	1.01X	110	5.92%
Single Tenant Retail—BBB- credit drug	75% LTV	1.15X	125	6.07%
Single Tenant Retail—Non-investment	75% LTV	1.40X	150	6.32%
High End Specialty Retail	75% LTV	1.30X	105	5.87%
High End Urban Retail	80% LTV	1.40X	105	5.87%
Mixed Use Urban Office / Retail	80% LTV	1.40X	115	5.97%

### CAPITAL SOLUTION — TREASURY RATES VS. CAP RATES

In the month of August, we have seen a 50-basis point drop in the 10-year treasury rate from a high of 5.22% to a low of 4.72%. As we were watching this key indicator rise steadily every month this year, we did not see any change in the historically low capitalization rates for retail properties.

This combination of high property prices and high interest rates made maximizing leverage next to impossi-

ble. We saw, for example, a single-tenant drug store trading at a 5% cap rate that we could only get to 50% LTV due to coverage constraints. You would expect to see a correction in the cap rates when interest rates have consistently been on the rise, but brisk sales of retail properties have held the market strong.

As of this writing, interest rates have come down (10-year treasury =

4.82%), and we are again seeing leverage climb back to the 75% to 80% LTV. If you are looking for maximum leverage on your property, consider locking rate at this time before rates start to rise again.