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Kahr Real Estate Group

Kahr Notes

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## 1. Kahr Announces New Investment Platform

Kahr Real Estate is pleased to announce the launch of our investment platform. Seeking to capitalize on current market conditions and our strong network within the industry, we are currently targeting income-producing real estate assets in the Northeast.

We have raised the initial round of capital from our management team and select investors, and are actively identifying and bidding on properties that meet our criteria.

We are seeking to expand our investor base. We are not looking to raise a "blind pool"; investors will have the opportunity to review each deal before committing capital.

If you would like to receive information on potential investments, please contact Joshua Kahr (josh@kahrrealestate.com) or Greg Easton (greg@kahrrealestate.com).

We look forward to hearing from you.

- The Kahr Group

## 2. 2010: The Year We Make Contact (With the Bottom)

On 1/21/09, I hosted a two hour webinar for the Urban Land Institute entitled "Real Estate Workouts: What Can We Learn from Past Cycles and Strategies for Today."

We addressed a number of issues (or as I like to refer to them in my less charitable moments, the specters of destruction): cheap credit, over-leverage, rampant speculation, lax oversight, and hubris.

The big question that we didn't have the ability to answer is the only one that matters. How do we work it all out and do so in a way that doesn't collapse the banking system?



KAHR REAL ESTATE GROUP

## Class Schedule

We continue to offer Argus and Excel for Real Estat Analysis classes in:

New York City

Boston

Chicago

Washington DC

Dallas

Miami

Los Angeles

All classes are offered on the weekend.

**Argus**

- **New York City:** February 7 & 8, 2009
- **New York City:** March 28 & 29, 2009
- **New York City:** May 30 & 31, 2009

**Excel for Real Estate Analysis**

- **Boston:** February 28 & March 1, 2009
- **Chicago:** February 28 & March 1, 2009
- **New York City:** March 7 & 8, 2009

More Excel Classes On Page 3

While Congress fumbles in its effort to find a scapegoat, the actual responsibility of figuring out what to do next is falling squarely on the desk of the servicers.

The key question is what will the servicers of the securitized paper do? Will they just foreclose on everything that is in default? Do they have sufficient flexibility to try and restructure the loans and not reinforce a total meltdown when the notes come due? Will Congress or the states come in and try to muck around with the foreclosure process?

No one knows, but for my two cents, three thoughts:

1. I think the special servicers are going to get slammed with bad paper. I can't imagine that they'll have the time or people power to actually try and restructure the stuff.

2. If the equity has been wiped out by falling values, there's no room for restructuring as the servicer will not be able to recast the loan at a lower principal balance. In that case, foreclosure is pretty much the only option.

3. If the special servicers try to do anything in the least bit creative, one of the investors in the paper is going to get ticked off and sue because it's pretty much a guarantee that any restructuring will benefit one investor in the paper at the expense of the other. The safest thing for the servicer is just to foreclose on the asset, even though bankruptcy is an expensive and time consuming process. Unlike with a bank, the servicer of an MBS doesn't have the sort of leeway that one would have if the servicer and the lender were one in the same.

In any event, there are a lot of opportunities out there. There's a ton of debt that is going to roundtrip back to investors, and there are a lot of great projects that can and will be repositioned. I think 2009 will be remembered as the year when the next cycle of serious wealth was created. We just have to make it to 2011 to start to enjoy the spoils.

- Josh Kahr

- **Dallas:**

  March 14 & 15, 2009
- **San Francisco:**

  March 14 & 15, 2009
- **New York City:**

  April 18 & 19, 2009
- **Washington D.C.:**

  April 18 & 19, 2009
- **Chicago:**

  April 25 & 26
- **Miami:**

  May 2 & 3, 2009
- **Boston:**

  May 2 & 3, 2009
- **Los Angeles:**

  May 30 & 31 1, 2009
- **Wahington D.C:**

  June 13 & 14, 2009

To register, visit our web-site:
**www.kahrrealestate.com**

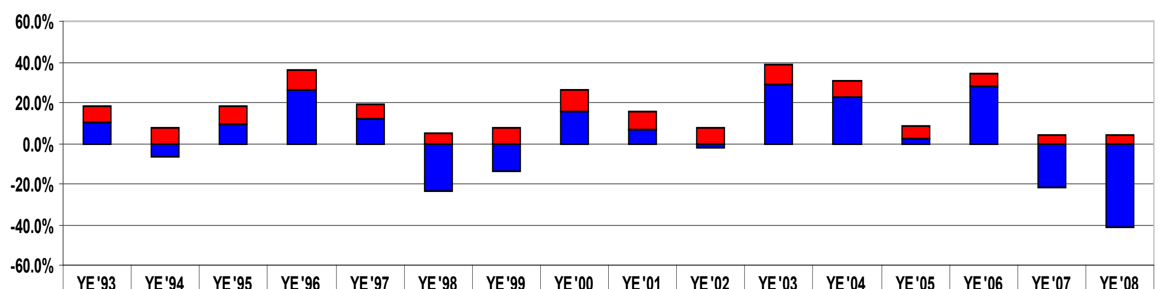
## 3. Real Estate Capital Markets Commentary

*by Scott Robinson, Co-Director of The REIT Center at New York University*

As evidence of a deepening economic recession continues to mount, the credit markets have shown relative signs of stabilization. And the broader capital markets have also shown relatively less volatility during the past 45 days. It is commonly accepted that the capital markets trade in advance of actual economic and earnings news. So does this mean we're approaching the bottom of the economic downturn? Regardless of the answer, we have few clues as to the length and type of recovery we'll experience. Most economists and business leaders generally expect the recovery to be drawn-out and not very robust. This uncertainty could keep investors on the sidelines, which would continue to weigh on commercial property and security valuations.

It would be an understatement to say that 2008 will go down as the most difficult year in our lifetimes for stocks, bonds, and alternative investments. The speed and scope of which liquidity left the markets is nearly incomparable, particularly for the real estate sector. The REIT equity markets took a historical beating with 2008 total return falling nearly 38%. REIT capital offerings slowed to a historical trickle of just over $15 billion, which was mostly driven by secondary common offerings in mid-year. Most painfully, CMBS issuance virtually vaporized with just $12B being issued - the lowest amount since before 1995. The following three charts highlight these dramatic changes.

Fig 1: FTSE NAREIT US REIT Total Return




| | YE'93 | YE'94 | YE'95 | YE'96 | YE'97 | YE'98 | YE'99 | YE'00 | YE'01 | YE'02 | YE'03 | YE'04 | YE'05 | YE'06 | YE'07 | YE'08 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income | 8.0% | 7.2% | 9.2% | 9.2% | 7.0% | 5.0% | 7.6% | 10.0% | 8.5% | 7.4% | 9.1% | 7.5% | 5.8% | 5.7% | 3.8% | 3.7% |
| Price | 10.6% | -6.4% | 9.1% | 26.5% | 11.9% | -23.8% | -14.1% | 15.9% | 7.0% | -2.1% | 29.3% | 22.9% | 2.5% | 28.3% | -21.6% | -41.6% |

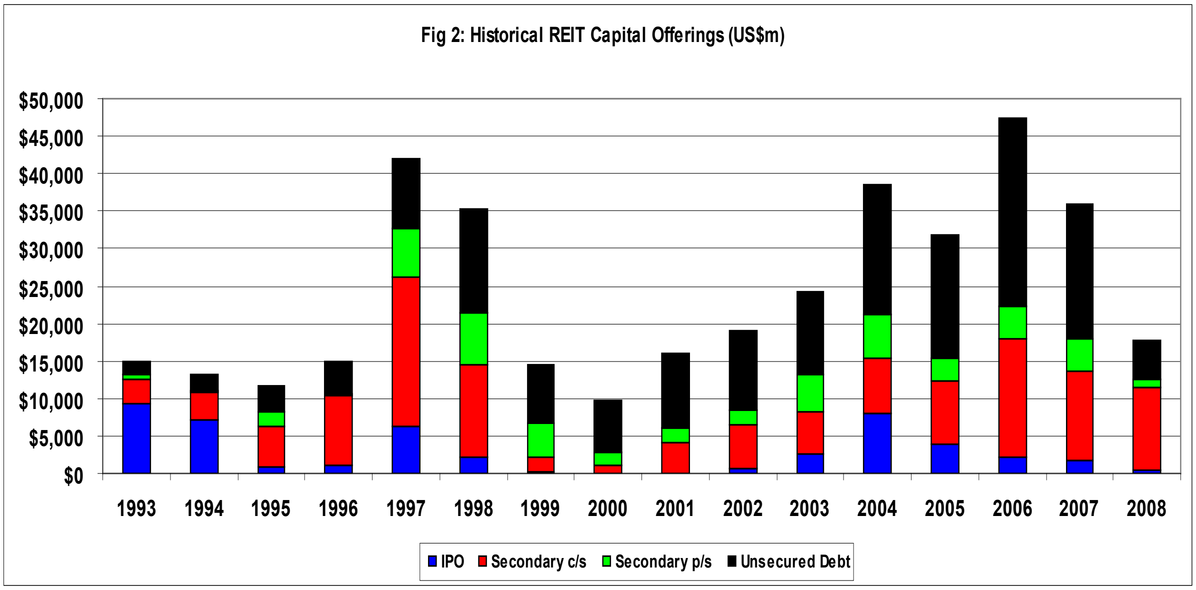
Source: NAREIT, Cadence Capital Group, January 2009

## Real Estate Negotiations

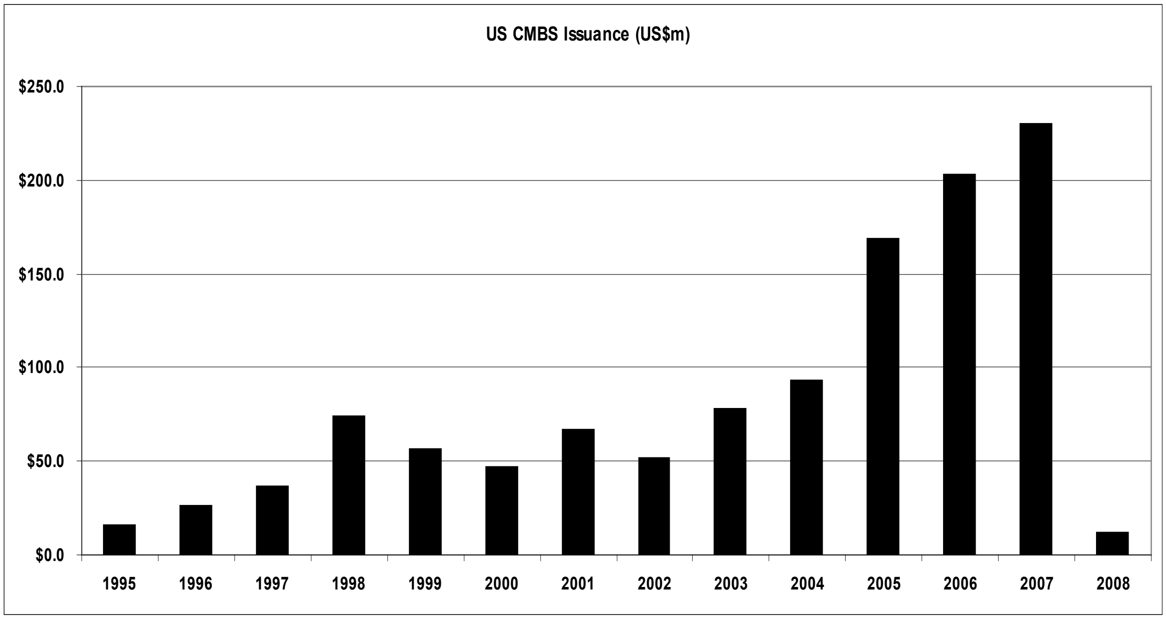
Call or email for availabilty.

## Group Classes

For custom training solultions, or to arrange group enroll-ment, please contact us directly.




Source: NAREIT, Cadence Capital Group, January 2009




Source: Commercial Mortgage Alert, Cadence Capital Group, January 2009

Real estate is a capital-intensive industry with new money required to fund TI/LC requirements, debt maturities and of course new investments. It is estimated that there is nearly $700B of outstanding securitized mort-gage debt (fixed-rate and floating-rate; excluding the much larger port-folio/on-balance sheet market) and another $100B of outstanding REIT unsecured debt and preferred stock. Nearly 15% of this debt matures in the next two years.

We will therefore see this lack of liquidity most profoundly impacting debt maturities, resulting in a dramatic increase in term defaults and an increase in maturity extensions for those properties with positive cash flow coverage. We will also see a continuation of "headline" risk in the commercial real estate industry throughout most of 2009, further depressing investor confidence.

The question everyone is asking is "what will it take to bring capital back to the sector?" First, we would expect that once the economic impact on real estate fundamentals becomes clearer, investors would likely recognize value in the current levels of various capital instruments and become more receptive to re-entering the space. This could occur as early as mid-2009, provided the ongoing economic reports are no worse than the current reports. The broader capital markets seem to have discounted a deep and protracted economic recession at current pricing levels, which could support this thesis. Additionally, we would like to see a number of real estate bankruptcies and defaults work their way through the system. While this sounds masochistic, it will give investors confidence in the workout process and provide some sort of guidance to a "downside" valuation. Finally, structural changes in the market for securitized debt will need to be implemented. We do not believe that all of these events will occur during the next twelve months (particularly the structural changes), but we expect that the real estate capital markets will generate better performance returns in 2009 than in 2008. Current pricing levels of CMBS debt (particularly at the top of the capital stack), REIT debt and REIT equity are compelling, regardless of your economic expectations. The key element however, is your risk tolerance for volatility and continued negative headlines, which will continue for the foreseeable future.

**Scott Robinson is a Managing Partner of Cadence Capital Group and co-Director of The REIT Center at New York University. For questions he can be reached at: scott.robinson@cadencecapitalgroup.com**

## 4. Brasilia: The City that Isn't

If you're going to really screw things up, you have to work in government. Nowhere else do you have the power and access to capital to act in a way that is so at odds with the market and common sense.

Let's try a thought experiment. Imagine building a nation's capitol with no respect for the presence of citizens. Remove everything that enables pedestrian traffic, and ensure that government employees can enter and leave the city as fast as possible. Then, imagine building the city around a theme. Maybe you could build it in the shape of an airplane? It's the sort of madness that until recently was only associated with Dubai. Apparently, this sort of thinking repeats itself every so many years in different areas of the globe; it's sort of like the avian bird flu of real estate.

In the visionary times that surrounded the 1960's, Brazil blessed its new capital, Brasilia. Brasilia was a planned city and a relocation ploy to essentially move citizens from the existing capitol, Rio de Janeiro, with all of its disarray and hustle bustle of a large city into the vacant (and largely uninteresting) central Brazil.

The commission fell to Lúcio Costa, an urban planner and modern architect known for his ruthless administration and subsequent quick removal from the School of Fine Art in Rio de Janeiro. The new capitol was meticulously designed, full of radical architecture, and like many planned cities – ultimately a bore. In the words of writer Simone de Beauvoir, it was 'elegant monotony.' For a city built in 41 months, consider that a compliment.

In some ways, we can't fault Costa. This was a time when the potential of modern transportation seemed boundless and plentiful. The country was in the process of successfully connecting the interior region to smaller costal cities via modern transportation. In homage to the wonders of transportation, Brasilia was shaped like an airplane, but its internal infrastructure primarily appeased the automobile. Highways, loops and bus routes abounded. This, of course, came at a cost. Absent were traffic lights, street corners, and sidewalks. Unfettered transportation for the car was paramount. Social spaces were largely designed away save for a few paths in empty "parks", some of which were planned and some of which were created by unruly pedestrians. In fact, in the photo below, you can make out trails in the grass made from people needing to cross. As for the residential areas, they were placed far from the urban center and strangely lacked public spaces.

As with many cities, centrally planned or not, Brasilia grew beyond expectation. The city could easily manage more cars with its wide roads, but not the defining element of a city: its people. Consequently, communities formed at the edges and when population growth exceeded plans, traffic lights were finally installed and empty green spaces were "humanized." Costa continued to retain significant control on any new developments, and opposed changes to his anti-pedestrian design.

After 40+ years, the capitol houses a population of roughly 2.5 million which makes it Brazil's fourth largest city. In some ways, the greatest testament to its failure is that while everyone has heard of Rio, almost no one outside of Brazil has heard of Brasilia. This is no surprise; it is after all, the city that isn't.

## 5. Kahr Group Information: Consulting and Training

**Financial Modeling**
Regardless of deal size or type, our key objective is always to build highly functional and optimal models for our client. We can also review and analyze a client's existing financial models for inefficiencies.

**Capital Advisory**
We support clients in their capital raising efforts with lenders and equity providers, by delivering presentations to capital sources or making introductions. We also lend our extensive knowledge of capital markets, deal structuring, and real estate finance to help negotiate better terms on equity and debt.

**Offering Memoranda**
We design and write graphically appealing institutional quality offering memoranda and RFP responses for our clients. When raising capital, a high quality document will get the project in front of the right capital sources.

**Market Analysis and Feasibility**
Our reports take a multi-layered "hands on" approach that goes beyond identifying current market conditions; we seek to enhance the overall profitability and market acceptance of the project by identifying hidden opportunities

### Excel for Real Estate, Negotiations (new) & Argus

Our **Excel for Real Estate Analysis** class draws students from across the country. It provides what many attendees say they never learned in business school; they learn how to model complex real estate transactions and use Excel to its fullest. All attendees will develop an understanding of how to use the power of Excel to analyze cash flow, leverage, partnerships and joint ventures, and construction projects.

The **Argus** course consists of lecture, case studies, and classroom discussion in a collaborative environment. By the end of the class, attendees will have a firm understanding of how to use the software and will be well prepared to analyze real estate in a high volume production environment.

The **Real Estate Negotiation** course consists of two full 8 hour days (with one hour each day for lunch) and provides a broad introduction to skills and techniques of negotiation. Some of the categories are covered include: preparation tactics, identification of goals and means, evaluation of the other party's position and goals, and possible points of dispute. Furthermore, we encourage creative solutions (where possible) that maximize value by considering factors beyond simple price or cost.

### Contact Kahr Notes

Kahr Notes is evolving to keep pace with our firm. We want to increase content value for you, while providing you interesting perspectives. Tell us what you want to read and we will listen - whether we do it or not. Write your feedback to info@kahrrealestate.com