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Griffin Realty Advisors Economic and Real Estate Update



Amid the negative economic news including unemployment rates at a 26-year high, housing prices continuing to fall, and corporate titans such as General Motors filing for bankruptcy, consumers are no longer retrenching, businesses are successfully clearing out unwanted inventories and even the strained banking system appears to be on the mend. There are a growing number of economists that see a recovery on the horizon due to a number of key indicators that appear to have bottomed out in recent months. Job losses seem to have peaked in January, GDP contraction is slowing, home sales are starting to pick up and stocks are enjoying a strong rally. The combination of a slightly stronger tone to the financial markets, long overdue changes in the accounting rules, and better than expected economic news has unleashed the first bit of optimism we have seen since the onset of the financial crisis.

Ben Bernanke, the Federal Reserve Chairman, recently stated that he is "hopeful that the sharp decline we saw beginning last fall through early this year will moderate considerably in the near term and we will see positive growth by the end of the year. The recent data suggests that the pace of contraction may be slowing, and they include some tentative signs that final demand, especially demand by households may be stabilizing." Most economists agree that flat to moderate growth in GDP will return by the fourth quarter of 2009. There is cautious optimism that a moderate recovery will continue in 2010. According to Richard Yamarone, economist at

Argus Research "What looked like a flicker of light at the end of the tunnel is now starting to look like a beacon. We are no longer in the deep throes of a recession. A recovery may be just a few months away."

Commercial real estate typically lags economic trends by six to nine months, thus property fundamentals are expected to begin improving by mid-2010, with industrial and multi-family leading the way. Commercial real estate transaction volume continued to decline through the first quarter of 2009. Activity was down 70% from one year earlier due to the disconnect between buyers' and sellers' expectations and continued tightening of capital markets. Commercial transactions should pick up in the third quarter as the narrowing of the pricing gap persists and the inventory of distressed assets continues to grow. According to Marcus and Millichap Research Services, there is approximately \$218 billion in commercial real estate debt maturing in 2009 which will force owners who are unable to obtain adequate leverage to find new equity partners or sell assets at distressed prices.

Increased levels in available inventory and pricing pressures are creating some of the best acquisition opportunities in 20 years. Capitalization rates are likely to move higher over the next year, reverting to longer-term averages.

The following information outlines, in more detail, the major economic factors having an effect on the economy and the real estate markets along with our thoughts regarding timing of recovery.

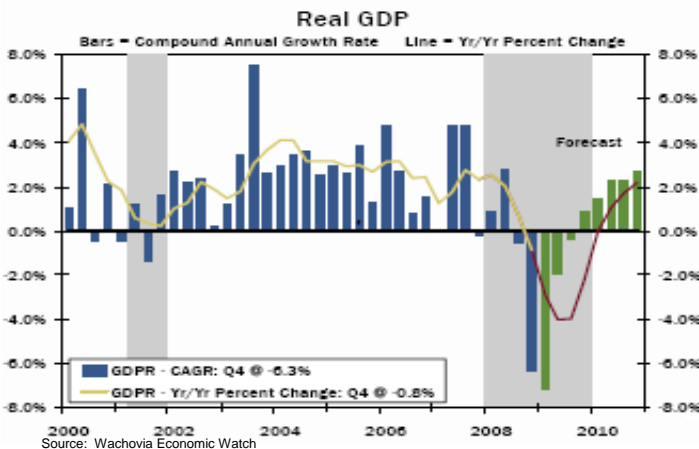


Economic Update

Gross Domestic Product (GDP)

In the first quarter of 2009, GDP declined by 5.7%. While this is a significant contraction, the pace of contraction is slowing given the 6.3% decline in the fourth quarter of 2008. The major contributors to the first quarter decline were business investments - 36.9%, residential investments - 38.7%, equipment and software - 33.5% and exports - 28.7%. In addition, private inventories decreased 2.34% or \$91.4 billion. This is the third consecutive quarter of decreasing inventory levels. While this is detrimental for the first quarter, it will aid future economic activity as businesses begin to replenish inventory levels.

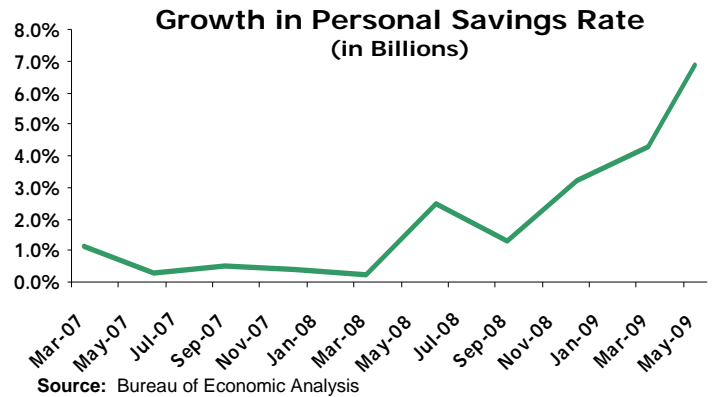
Although the range varies, most economists agree the contraction of GDP will be far less in the 3rd quarter turning to flat or nominal growth in the 4th quarter of 2009. GDP growth is expected to stabilize in 2010 resulting in a normalized rate of potential growth by the end of 2010 or early 2011 as the restraints on households and business spending have eased and the contraction in the housing market is expected to come to an end.



Because consumer spending makes up 70% of GDP, it is a key component to economic recovery. How quickly the economy emerges from recession will depend on the pace of consumer spending. The good news is consumer spending increased 1.5% in the first quarter which was a significant shift from the 4.3% decline in the fourth quarter of 2008. April spending proved to be flat while May of 2009 consumer spending rose .3%.

One factor impeding the rebound in consumer spending is a significant increase in the personal savings rate. As of May 2009, the personal savings totaled \$769 billion or 6.9%, the highest level since 1993. The overall increase is due to Americans' deep concerns over the weak job market, declining home values and volatility in the stock market. In addition, recent gains are attributed to one time government payments made to eligible seniors under the economic-stimulus plan intended to spur consumer spending. But recipients seem unwilling to spend

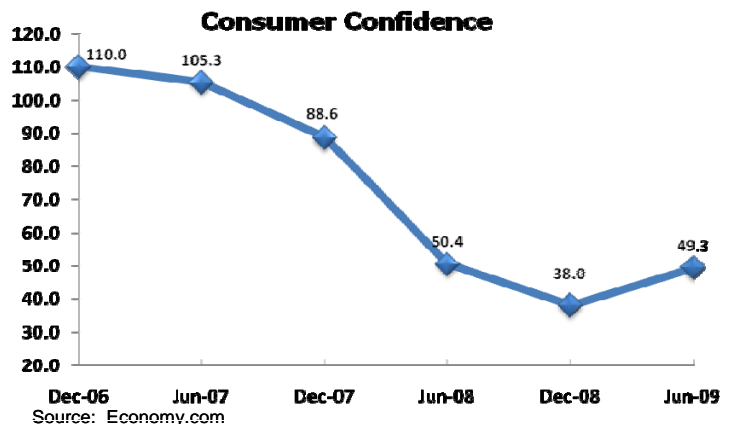
right away given the fact these payments helped boost personal income by 1.4% in May, but consumer spending only rose by .3%



According to Treasury Secretary Timothy Geithner "In the United States, savings rates will have to increase and purchases of U.S. consumers cannot be as dominant a driver of growth as they have been in the past." This increased thriftiness of the American people may slow the return to economic growth but may strengthen the financial health of U.S. households in the long run.

Consumer Confidence

In the second quarter of 2009, the Consumer Confidence Index soared above the February 2009 recession low point. According to Lynn Franco, Director of the Conference Board Consumer Research Center, "After back-to-back months of strong gains, Consumer Confidence retreated in June. The decline in the Present Situation Index, caused by a less favorable assessment of business conditions and employment, continues to imply that economic conditions, while not as weak as earlier this year, are nonetheless weak. Looking ahead, expectations continue to suggest less negative conditions as opposed to strong growth."



With credit markets easing and interest rates remaining low mortgage refinancing has increased. Add to this the recent return of some consumer net worth from the stock market and buying plans appear to be improving, albeit at a slow pace. According to Moody's.com, confidence is expected to remain low and the gains of the 2nd quarter may not be sustained in the short run but the trend should be positive, with gains accelerating later in the year.



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Unemployment

The unemployment rate hit 9.5% in June of 2009, representing a loss of 6.5 million jobs lost since the beginning of the recession. But the pace of job losses has continued to slow since January of this year, further evidence the worst part of the recession is likely behind us. Layoffs have been extraordinarily broad based throughout this downturn and even recession resistant areas like state and local governments have been affected. The largest losses continue to be in manufacturing and construction resulting in close to half of the overall job losses.

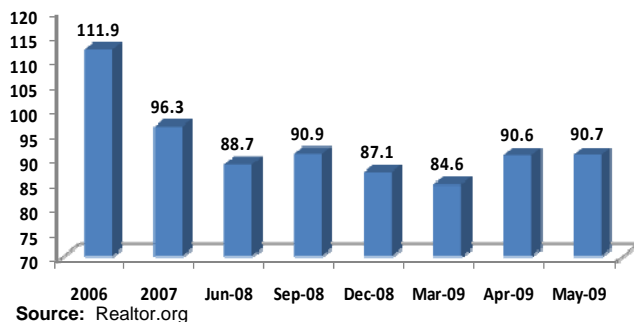
Unemployment is a lagging indicator which means the job market will not change course until a broader economic recover is well under way. Add to this the fact that the U.S. economy needs to add 100,000 to 125,000 jobs a month to keep pace with population growth and it is easy to understand why economists believe unemployment growth will not peak until early to mid-2010.

Housing

There is a reason for cautious optimism in the housing market. Home sales have shown some stability, inventories are likely past their peak and affordability is steadily rising.

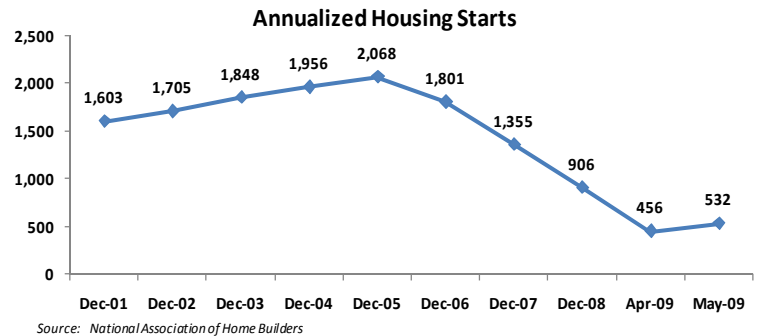
Pending home sales increased .1% in May of 2009 which was the fourth consecutive monthly gain which hasn't occurred since October of 2004. While all pending sales do not result in a final closing, it does indicate that actual home sales, which have been fairly stable this year, are poised to rise over the next few months. According to Lawrence Yun, National Association of Realtors (NAR) chief economist, "With the positive housing stimulus incentives now in place, we expect home sales to gain momentum in the second half of the year with first-time buyers absorbing a lot of the excess inventory. Under these conditions, we should see price stabilization in most markets by the end of the year."

Pending Home Sale Index
Seasonally Adjusted Annual Rates



Drastically reduced pricing have lured enough buyers to start chipping away at the glut of inventory that has been weighing down the market. At the end of May, there was a 9.6 month supply of new home inventory,

down from the 12.4 month supply in January of 2009. In addition, new home starts are down approximately 45% from prior year, also aiding in the unwind of existing inventory. "Inventory levels continued to improve." said Adam York, economist at Wachovia, in a research note. "We are encouraged by the relative stability in sales and the continued improvement in inventory levels."

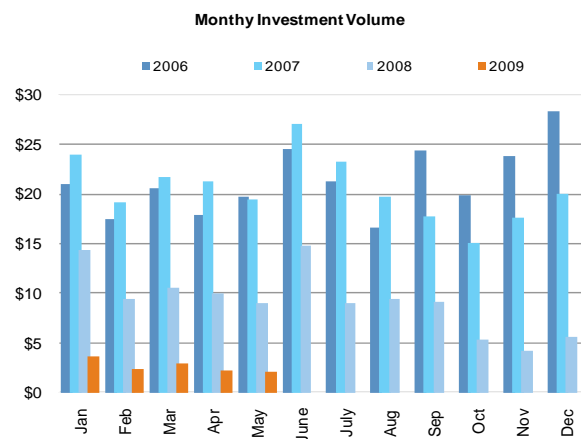


The surge in foreclosure sales and high inventory levels continue to drive down home prices. The Case/Shiller house price index shows that house prices are still declining in most areas, now down 32.6%, on average, from their peak in spring 2006. The good news is the last 3 monthly declines have moderated. According to the forecasters at Moody's Economy.com, the Case-Shiller home price index will post a 35% peak-to-trough decline by the end of 2009, assuming monthly declines continue to abate in the near term.

General Real Estate Outlook

Capital Markets

The scarcity and higher cost of debt brought a near halt to real estate transactions in the last half of 2008 and first half of 2009 signaling that the era of capitalization rate compression had ended and a shift to a buyers' market had begun. According to Moody's Investors Service, commercial real estate prices dropped almost 15% in 2008, returning values to 2005 levels. With capital remaining tight and the economy expected to worsen, albeit at a slower pace, commercial real estate values will decline further in the near-term. According to Real Capital Analytics, there has only been approximately \$13 billion in real estate transactions through May 2009. While this number pales in comparison to

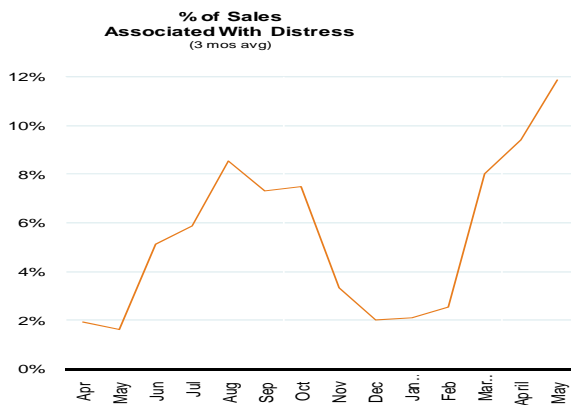




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prior years, investment in office and multi-family assets appear to be gaining momentum. In May, sales of office properties were 70% above April activity. A recent increase in office deals under contract, including some larger transactions, is also a hopeful sign.

Since February, sales have stabilized at a 70% year-over-year rate of decline suggesting that transaction volume is likely at its low point. Hopefully the rise in deals under contract signals that transaction volume is poised to reverse direction. One reason for the stabilization is the fact that we are beginning to see rapid growth in the number distressed transactions.



While there is an increased volume in distressed sale transactions, it is not near the activity level required to help reduce the rapidly growing inventory of distressed assets.

Troubled commercial properties have doubled this year with hotel and retail properties emerging as the most problematic sectors.

| Distressed Assets By Property Type | | | | |
|------------------------------------|---------------|--------------|----------------|--------------|
| | 2009 YTD | | Total | |
| | \$ bil | # Props | \$ bil | # Props |
| Retail | \$17.8 | 525 | \$31.2 | 1,420 |
| Hotel | \$11.8 | 894 | \$17.3 | 1,025 |
| Apartment | \$8.1 | 588 | \$16.8 | 1,133 |
| Office | \$8.9 | 258 | \$16.4 | 564 |
| Other | \$8.6 | 390 | \$22.9 | 820 |
| Industrial | \$1.4 | 199 | \$2.5 | 353 |
| Grand Total | \$56.6 | 2,854 | \$107.1 | 5,315 |

Source: Real Capital Analytics

One reason for the overall increase is the modest rate at which troubled situations are being resolved. Currently, modifications and short-term extensions are being granted, but these can hardly be considered resolved, only delayed. As time and extensions run out, owners will be forced to sell distressed assets at discounts or find equity partners to fund the gaps. Griffin Advisors believes there will be a number of opportunities for investors with available capital to partner in or acquire assets at significant discounts.

Pricing will continue to decline in the near term due to the significant volume of distressed deals. In addition, sellers still greatly outnumber buyers, and that disparity will continue to pressure sellers to lower prices and take the first step to close the bid-ask gap with buyers. On average, cap rates have increased approximately 75 basis points from their low point in June of 2007.

Credit Markets

Credit markets have marginally improved with new buyers beginning to emerge and increasingly other buyers are returning and making their first acquisition in a year or two. Lenders remain stingy with commercial real estate loans. Loan-to-value ratios for deals continue to be suppressed (ranging from 50%-60%) and credit conditions remain far tighter than they have been in recent years. Several life insurance companies, normally a major source of liquidity, recently announced plans to scale back lending and others are holding back major portions of their allocations for maturing loans.

Distressed Debt vs. Value Add Real Estate

Individuals may take advantage of the current market conditions and volume of distressed deals by investing in distressed debt or commercial real estate vehicles. Griffin Advisors believes participation through commercial real estate vehicles such as funds, REITS or "gap equity" investments is more advantageous than investing on the debt side. First, direct investment in the real estate asset provides an active investment position with more control and ability to affect the operations of an asset. Ownership in distressed debt is a more passive position and impact on daily operations is limited. Second, a partner entering a real estate investment in a distressed situation is usually deemed as a saving grace creating a friendly, partnering environment whereas an investor entering a distressed situation in a lender capacity is often deemed more adversarial. Third, we believe returns related to distressed debt investments have a higher risk of non performance along with a risk of higher cost if foreclosure proceedings are necessary.

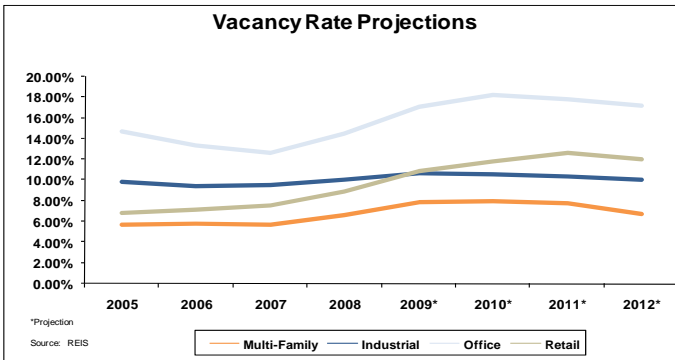
Real Estate Fundamentals

Because commercial real estate fundamentals typically lag the economy six to nine months, space fundamentals continue to weaken across all property types, primarily due to declining demand as consumers and businesses continue to cut back. The result is that commercial property vacancy rates are expected to rise through year end, with rollbacks in rents likely to continue through mid-2010. Commercial real estate fundamentals and the investment climate will ultimately benefit from improving capital flows and the economic recovery, especially since the sector was generally not overbuilt heading into the downturn.

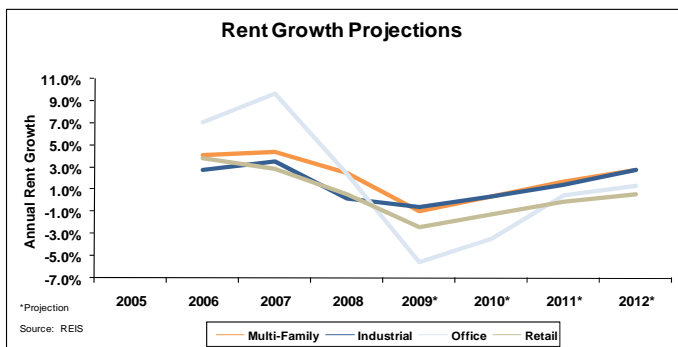


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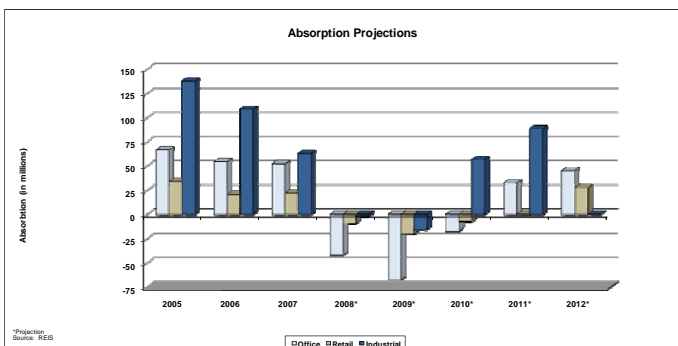
According to 1st quarter 2009 projections from REIS, multi-family is the only sector expected to maintain single digit vacancy rates throughout the economic downturn. With the exception of the retail sector, vacancy rates are projected to peak in 2010 and slowly trend downward thereafter. Retail vacancy rates are not projected to peak until 2011.



REIS first quarter 2009 asking rent projections anticipate declines for all sectors, except office, to be less than 2.5%. REIS projects a 9% decline in office rents thru 2010. While these declines do not appear severe, one must keep in mind that rent concessions are likely to increase during 2009 and 2010 having a detrimental affect on effective rents.



And finally, absorption projections by REIS do reflect negative expectations in 2009 for all sectors with industrial being the first sector to rebound in 2010.



We, along with others continue to believe that the second half of 2009 will be the beginning of great

opportunities for investors who are standing on the sidelines. Raymond Torto, chief economist at CB Richard Ellis believes "Some people will be able to take advantage of the situation. There's still a standoff between buyers and sellers over the price of assets but, as forced sales emerge, those who have more equity to work with will have great buying opportunities." In addition, Hessam Nadji, managing director, research services for Marcus & Millichap Real Estate Investment Services says "As more owners become realistic about the price adjustments needed to clear the market and as rising vacancies and maturing loans create additional pressure to sell, the buyer/seller expectation gap should begin to narrow, resulting in more transaction starting in the second half of 2009."

The good news for investors is that the "gloom and doom" is reflected in the acquisition assumptions as well as the higher yield expectations which reduces the acquisition price. If the income grows faster than projected and/or yield requirements revert back to the mean, better than projected results will occur.

Sector Analysis

Office

Throughout the recession, office market fundamentals have softened, but at a moderate pace. Over the past year, office vacancy rates rose steadily to 15.3% in the first quarter of 2009 triggering a downward trend in effective rents beginning in 2009. Moderate declines in the office market are expected to continue through mid-2010 followed by a slow, steady trend of improvement. Since most markets did not experience overbuilding in the years leading up to the downturn due to high land, construction and material costs the market is better positioned for a recovery than in past cycles. In addition, development activity is set to slide next year also indicating a recovery in fundamentals should pick up steam faster than in past cycles.

From a capital markets perspective, capitalization rates for office properties are forecasted to edge higher over the next year as motivated sellers scale back their pricing expectations. For all assets, capitalization rates will likely exceed 8% while properties in secondary and tertiary markets are already trading at cap rates of 10% or better. Griffin Advisors believes the current market downturn will generate numerous opportunities, in the near term, to acquire assets in the office sector with advantageous terms and pricing.

Multi-family

Despite recent weakness, apartment fundamentals have been the most stable of any property sector throughout the economic downturn. The exception to this premise has been apartment fundamentals in metro areas with large supply imbalances. Griffin Advisors expects that excess housing supply, in tandem with another year of job losses, will further exacerbate rising vacancies and falling rent in these areas. Meanwhile, supply-constrained markets with solid economic drivers over the past few years are well positioned to weather the



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economic storm. The long term outlook for this sector is strong but it will be a challenge through 2009, requiring exceptional tenant retention, aggressive marketing and unwavering focus on operations.

Since the inception of the recession, multi-family vacancy rates have risen 160 basis points to 7.2% and there are a number of factors generating this increase. First, rising unemployment and low consumer confidence are forcing many renters to double up or even move back with family. Second, deeply discounted home prices due to foreclosure sales and the \$8,000 tax credit for first-time home buyers are encouraging some current renters to purchase homes. Third, the housing market slowdown has led many homes and condominiums into the rental pool, creating a significant shadow rental market which competes directly with traditional apartments.

Even though vacancy rates are increasing, this is the only sector expected to maintain single digit vacancy rates throughout the economic downturn. In addition, the pipeline of new product is diminishing and completions are expected to slow in the second half of 2009 and drop dramatically in 2010. Both of these factors are setting the stage for a relatively swift recovery once housing finds a bottom and the economy turns the corner.

Retail markets

After years of benefiting from strong spending by consumers, the retail sector has been hard-hit by the current recession. With the net worth of U.S. households declining by approximately 10% and a rapid increase in job losses, consumer confidence has plummeted resulting in significant spending cuts. Even though retail construction is expected to decline by over 30% in the near term, increased vacancy rates cannot be avoided due to the increasing number of store closures and reduced retailer expansion resulting from declining demand. According to Cushman & Wakefield, over 130 million square feet of big box space in the U.S. has gone dark since the beginning of the recession. However,

the reduction in development along with continued improvement in consumer confidence should help retail markets stabilize in 2010 followed by a moderate recovery in 2011. While rental rates remained relatively stable in 2008, moderate declines began in 2009 as supply increased and major tenants made significant efforts to renegotiate in-place leases to avoid closures. Griffin Advisors expects well located strip centers anchored by top supermarket chains to continue to draw "necessity shoppers" and weather the storm with relative ease. In contrast, Griffin Advisors believes lifestyle centers with a greater focus on "discretionary products" will continue to struggle and experience the greatest number of store closings in the coming year.

Industrial

The U.S. industrial sector vacancy rates have climbed to their highest level in over four years. This is to be expected given the drivers of demand for industrial space: retail sales, logistics, and global trade have all been negatively impacted by the recession. The most severely affected markets are the Midwestern and interior markets, which are being plagued by the shrinking manufacturing sector and a slowdown in global demand for U.S. made goods. According to Torto Wheaton, approximately one half of the largest industrial markets will surpass previous vacancy peaks by the end of 2010. In recent months, vacancy and rental rates have been negatively impacted by hefty construction, even though new projects have slowed considerably. In 2009, space under construction plummeted to its lowest level in fourteen years, which should reduce the impact going forward.

Through May, 2009, industrial production was down 13.5% vs. a year ago; manufacturing output was down 15.2% vs. a year ago; high-tech output was down 20.9% vs. a year ago; and overall capacity utilization fell to 68.3%. While the numbers do not look good, it is typical for industrial production to lag 1 – 3 months after the end of a recession so we should see improvement within the next six to nine months.