



VENTURES

July 28, 2009

Investors:

We send this letter in the hopes that you are well, and with our apologies for its being slow to arrive. The first quarter of the New Year is well behind us, and we are quickly coming towards the end of the first half. From all angles, the year started off slowly and without much good news, but the past few months have turned the overall market's mood around somewhat and there now appears to be a pervading sense of optimism that the worst of this economic turmoil is behind us and that the challenges that still await us are manageable.

While at Corridor Ventures we are pleased that the equity markets have rebounded, we are not optimistic that a continued upward stock market trend will continue. Over the past few weeks, the market has lost its steam, even though the broad economic news suggested that the recession was abating. We believe significant headwinds remain in that the equity markets are overbought, oil is near its 2009 high, and interest rates will continue to rise due to the Fed's continued flood of liquidity. In addition, a record budget deficit is giving foreign investors pause as to the value of the debt we are seeking to sell to them, and to the long-term value of the U.S. dollar. These factors must be considered when evaluating whether or not the recovery of the equity markets really does portend the brighter future that it seeks to predict, or whether this is a bear market rally. From our own perspective, it is difficult to see how it could be anything but the latter.

A word about oil, as this is a very important factor in our view of the economy. At its low point, oil was trading at less than \$40/barrel. This translated into low gas prices and lower winter fuel bills, though some of the benefits were muted by the fact that oil suppliers owned inventories at higher prices. In any case, the low prices translated into a virtual tax break for struggling consumers. Now, with prices back up to almost double their lows, consumers will be adversely impacted at a time when their jobs are still at great risk, when the notion of spending money remains intimidating, and when their traditional summer driving season is about to begin. As it was tantamount to a tax break on the way down, it is a tax increase on the way up. This, plus the rise in interest rates that could stem what was an important refinancing wave, are two signposts of sector inflation that will restrain consumer spending and thus a fundamental economic rebound.

As we have said for some time, and still believe, the stated unemployment rate will continue to rise. We still think the most likely scenario has it hitting 11-12% before beginning a slow march back to lower levels. Additionally, there are twice as many workers whose jobs do not reflect their prior levels of compensation, who have stopped seeking work out of exasperation, or who have accepted part-time labor to make up for the fact that good jobs are really hard to find. This employment factor, when coupled with

higher oil prices and interest rates, as well as tighter credit, suggests to us that despite all the posturing about economic turnarounds, and all the attention paid to the second quarter stock market surge, optimism about a real recovery may be premature.

When looking at the equity markets and generally considering how to deploy capital, we also need to consider that the improvement in the equity markets has been largely driven by the stocks that had been hit the hardest, and whose future appeared the most tenuous. The rebound in these stocks, which has translated into a meaningful rise in the major indices, has provided hope that economic recovery is not far off, but may more accurately suggest that the fear of complete collapse is off the table for now. The difference between global economic collapse and real economic recovery, however, is significant. In our view, this is where we are today; with a total global meltdown now much less of a concern, but with dim prospects of real growth on the horizon.

Our economy is driven by consumer behavior, which is driven by jobs, available credit, and confidence. When the average consumer spends money, our economy thrives. When consumers pull back, it struggles. And when consumers don't have jobs, have lost and continue to lose equity in their homes, have sold what was left of their equity portfolios, are about to get hit with higher oil/gas bills and interest rates, and have their credit lines reduced, confidence cannot help but be impacted. In the event that the economy does begin to statistically recover and grow this year or next, it is our view that it will be a limited recovery, with lots of potholes. It is with this perspective that we continue to shape our own real estate investment strategy.

Obviously, we hope that our short-term views are more pessimistic than the future reality, but we prefer shaping our own investment strategy with a pessimistic bent, as this will ensure a conservative approach to negotiating and underwriting deals, while allowing for meaningful long-term upside benefits should a turnaround occur more quickly and meaningfully than we are projecting. The good news for the long-term remains the fact that the U.S. population is growing organically, that aging baby boomers will need large quantities of goods, services, and health care, and that renewable energy is going to create new growth opportunities across many sectors. Second, industrial inventory levels are at a low point, which offers the prospect of a sharp manufacturing activity increase, which spells new job creation and possibly consumer spending. Additionally, the cash hoard that has been growing on the sidelines, is cautiously re-entering the marketplace and getting more comfortable with risk, which is allowing companies to raise new capital and stabilize their balance sheets. More money into companies helps the prospects for jobs and for business spending. These factors should help create some stability in our economy, and pave the way for expansion over the long term. All this bodes well for opportunistic and patient real estate investors.

Another positive trend is that home prices are stabilizing. The idle cash is seeking bargains, and this cash has already begun to be deployed into assets with attractive risk/reward characteristics. Although much of this investment today is in "distressed" debt and securities, as well as assets with very strong yield and capital protection characteristics, the fact that money is being deployed reflects a growing view that opportunities exist and that values are falling in line with the realities of the economy. This, we believe, is the first step towards halting hard asset value declines, and ultimately will lead to a broader recovery in asset values.

The commercial real estate market is on the verge of turmoil, in a similar position to residential real estate 18 months ago. Delinquencies on commercial mortgage backed securities have increased almost 300%

this year. Cap rates are rising across all asset classes and have not yet stabilized. Vacancy rates are also rising across all asset classes, including student housing and multifamily properties. To the extent that financing is available, the terms for such are becoming more onerous and the negotiating leverage is favoring the lender. While none of this is particularly good news for assets bought in the past 3-5 years, particularly those assets that need to be refinanced in the next 18 months, it is great news for investors with capital to deploy. For the first time in nearly 10 years, the distress in the marketplace and the disappearance of many buyers and financing sources have created an imperfect information environment for asset values. This creates opportunity to buy good quality real estate below replacement cost, with strong current return characteristics, and with future upside potential. Buyers that are able to demonstrate an ability to close are very much in the driver's seat and will see more and more quality opportunities in the next two years. All of this creates a great deal of excitement on our part, as we believe that the time to begin making deals and investing our capital is right in front of us.

On the student housing front, the news is mixed. Continued strong enrollment trends and decreasing rates of new development are helping to prop up pre-leasing activity at campuses across the country. However, the strong demographic and population factors are competing with declining state budgets, a willingness on the part of students to live further from campus or at home with their parents, and an increasing focus on low rents at all costs. This is stressing both occupancy and revenues. While lease-up is steady, it is going more slowly than in previous years. On the average, our properties are about 5% below where they were last year on a pre-leasing basis, and in many cases we are granting concessions in order to ensure that our properties are competitive.

All of our student housing competitors are experiencing the same economic challenges and all are struggling to optimize their lease-up. Here at Corridor, we are working hard to make the best of a difficult environment, focusing on controlling those aspects of asset and property management that we can impact positively. With respect to the lease-up, we review our pricing and concessions on weekly calls and frequent visits, making changes we believe are warranted. We are also re-evaluating every expense category in all of our budgets, trying to come up with creative ways to reduce expenses without degrading our physical assets. Where possible, we are postponing capital expenditures and we are vigilantly watching both our cash flow and our cash reserves. As we have said before, we will reduce or even suspend preferred returns if this becomes an appropriate course of action, but we know how important these are to our investors and are doing everything possible to maintain them. The bottom line is that we are doing everything we can to protect your investments, continue to earn your trust, and improve our ability to effectively manage our assets.

Please know that Hagan and I want to be in close contact with all of you, and we are glad to spend as much time as you would like answering your questions and putting perspective on your concerns. This is not to say that we will allay them all, but we know you want to be fully up-to-date. Especially during economic times that are this challenging, it is important that we do everything we can to help you feel informed as to how your investments are performing. Please let us know how we can better communicate with you and we will strive to do so.

On a final note, and to bring this discussion full circle, while we are not taking any of the bait about the potential for an immediate-term recovery and a stock market that could return to its inflated levels, we are optimistic about our country's long-term economic future, and about the real estate investment

opportunities that are now beginning to emerge from the battering that asset values have taken over the past 18 months. While it would definitely have been easier to see this difficult period coming long in advance, we were for the most part restrained and conservative in our underwriting during 2005-2008, did not buy into the sub-7% cap rate pitches we were hearing from brokers all over the country, and thus our portfolio for the most part is mostly in stable economic shape. Going forward, the long-term fundamentals for multifamily housing are strong, and we anticipate participating in a growing quantity of transactions in the coming years. Towards that end, we will continue bringing a realistic, conservative and disciplined approach to our underwriting, seeking to protect capital, generate current returns, and provide for long-term appreciation through solid management and value-added investment in infrastructure.