HREB Capital Partners LP

Repositioning Strategy for Distressed Commercial Real Estate Non-Performing Loan Portfolios

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Homburg International Group

- 44 years in commercial real estate
- Over $10 billion in transactions
- Recent success 2012: Homburg/Canmarc REIT: Largest entry-exit of a REIT in Canada with 88% return in 20 months

Extensive Experience Repositioning Distressed Commercial Real Estate Includes:

- Rescue of Dutch Uni-Invest, starting with $100 million portfolio value in 1991 sold to Lehman Brothers for $3 billion portfolio value in 2002 (400% total return on equity).

- Extensive experience in clean-up of US Savings & Loan Crisis through Resolution Trust Company

Capabilities

- Asset Management in HREB Asset Management LP
- Property Management through Homburg Services Group b.v
- New 2013 TSX IPO of Maplewood International REIT with initial acquisition pipeline of $500 million
- Research and Advisory in Homburg Institute Canada (www.homburginstitute.com)

Current Proposal

HREB Capital Group LP harnesses a combination of private equity, and vertically-integrated asset management and property management, to reposition distressed commercial real estate:

1) Acquire NPL portfolio from Dutch bank at a discount
2) Keep owners paying: transform non-performing loans into performing loans by deferring a portion of the loan payments
3) Manage the properties to generate increased value in the asset portfolio.
4) Securitize performing loans
5) Create an accrual on deferred loan payments, and securitize the accounts receivable
6) Accruals are realized at point of sale or when real estate is refinanced

Acquisition of NPL portfolio at 75% current market value

Example:

Assume that a bank made €500 million in loans on real estate valued at €650 million when times were good. However, the current market value is now only €400 million. With equity finance, HREB would purchase the mortgage paper for €300 million (75% of current valuation).

Private equity participation is secured with a €300 million investment with a face value of €500 million on €400 million of collateral at market value.

Transforms non-performing loans into performing loans by deferring a portion of the interest

- HREB model keeps owners alive to pay the mortgage.
- Mortgage payments are reduced to turn the non-performing mortgage loans into performing loans to gain immediate cash flow.
- HREB would issue new mortgages, with new loan to values at present terms and conditions, based on a valuation at 60% LTV.

Performing loans can be securitized

- Sixty percent of the €400 million of collateral at market value is securitized, producing €240 million of Grade A securities.

Create an accrual on deferred loan payments, and securitize the accounts receivable.

- Having refinanced €240 million of the original acquisition cost of €300 million, the exposure for the HREB Capital Group is only €60 million, the balance of the original mortgage of €260 million.

- This carries a potential profit over this of €200 million, plus accrued interest.

Accruals are realized at sale or when real estate is refinanced

4 Truisms of Real Estate Cycles:

1) There is always inflation
2) Real estate asset returns have always outperformed inflation
3) Debt-saddled governments need more inflation
4) There is always an upside to a real estate cycle and we are close to the end of the downward cycle

Superiority of HREB Approach over Recent NPL Deals

- Foreclosure is not a compelling asset management strategy.
- Foreclosure in an NPL deal is a strategy for sharing the hair-cut between the banks and the asset-managers acting as liquidators.
- Selling the property in a market with historically low market values and high inventory might realize razor thin margins.
- HREB's approach unlocks value and creates high profits for all stakeholders.

Superiority of HREB Approach over Recent NPL Deals

- Competitive bidding for the banks' NPL portfolios have caused pressure to structure deals quickly, with little thought to optimal long-term repositioning strategies of the assets.

- By contrast, HREB's more thoughtful approach builds in the long-term realization of deferred interest payments, and structures the repositioning through second mortgages and interest accrual to maintain a stable and performing loan portfolio in the short term that are positioned for windfall gains over time.

Superiority of HREB Approach over Recent NPL Deals

- Some of the more tenuous deals depended on vendor financing, which is both counter-intuitive to the ethos of the restructuring, and bound to garner political attention.

- In comparison, HREB's approach to forge a partnership between private equity, asset management and property management is much simpler and clean.

Superiority of HREB Approach over Recent NPL Deals

- Syndication of equity participants has resulted in delays, disagreements, and partnerships sometimes falling apart.

- HREBs approach is to deal directly with the banks in the Netherlands, before a crisis erupts.

Superiority of HREB Approach over Recent NPL Deals

- Disagreements among equity partners over the preferred asset and property management has resulted in instability.

- By contrast, HREB's resources and experience span both asset management as well as property management, bringing the entire structure into a seamless vertically-integrated enterprise.

European Non-Performing Loan Market

- In 2012 there was €11.2 billion in transactions of non-performing loan portfolios (NPL) of commercial real estate (CRE)

- Volume expected to increase to €30 billion in 2013.

NPL in The Netherlands

KPMG estimates that banks are holding a combined €80 billion against commercial real estate in the Netherlands, with as much €20 billion worth of loans, or a quarter, estimated to be underwater.

Banks in the Netherlands are Looking for New Solutions

- Netherlands country ranking is downgraded with a weak economy and growing national debt
- Bank stability scores are declining
- Increased bank financing through covered bonds using mortgage assets as collateral but declining real estate prices.
- 2/3 of maturing CMBS did not refinance at maturity. They either defaulted, or there is a postponement on those loans and no action, resulting in paralysis.

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