



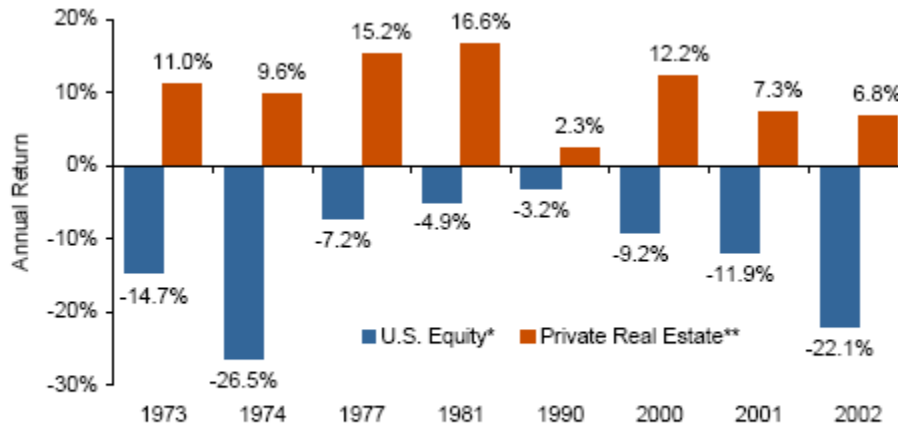
To Investors and Friends

Since so many of you were helpful in my analysis of starting a real estate asset management business, I thought I would provide you a brief update on real estate as an investment class, the Atlanta real estate economy and my activities over the last several weeks.

[Institutional Investors Increase Appetite](#)

The Wall Street Journal recently reported that tax-exempt investors are expected to increase their allocation to real estate in the coming year. Tax-exempt capital is most represented by the large pension funds, but also includes endowments and foundations. The article reported that these institutions are expected to invest \$44 billion of new money into private and public real estate over 2004. This represents an increase in these investors' allocation to real estate to an average of 7.6% of their capital. This reflects a 5.5% increase over last year's 7.2% allocation to this sector. This increase in allocation percentage is an important point. Generally, pension funds invest their capital according to in-depth allocation studies that attempt to determine the appropriate allocation to the various investment classes to maximize their return. Typically, pension fund allocations to real estate range from 3% to 10%. A decision to increase the allocation is an indication of the relative value the pension funds ascribe to the real estate asset class. This is of even more import considering the recent stellar return experienced in the stock market.

Investment research continues to point to the diversifying benefits of real estate investment. Though these reports are often written with the institutional investors in mind, the core concept of diversification is applicable to private investors as well. A recent report by The Frank Russell Company concludes that real estate investment has provided positive returns in every year that equities have declined over the past thirty years.

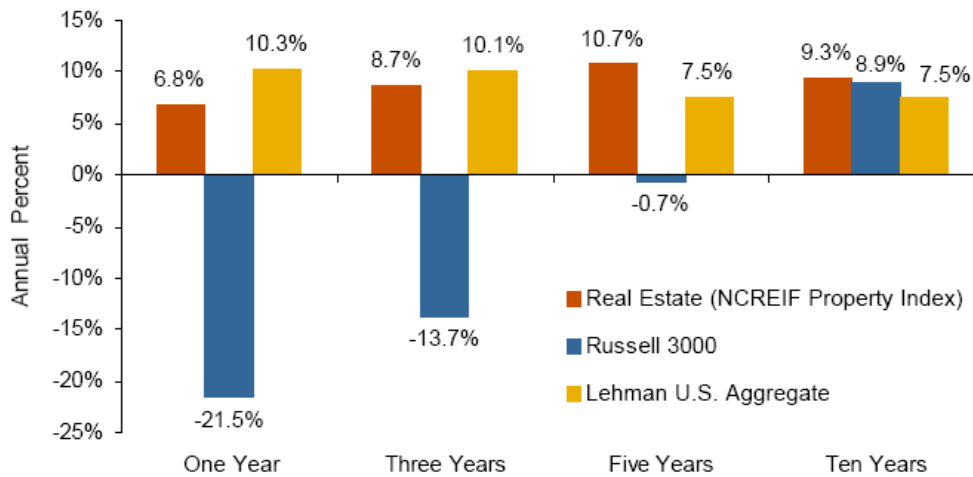


* S&P 500

** The Russell Open-End Fund Universe is used prior to 1978, at which time the NCREIF Property Index was created.

The diversifying effects of real estate investment are further shown by the following graph covering one, three, five and ten year periods ending 2002.

**Competitive Returns from Real Estate
(Periods Ending December 31, 2002)**



Source: NCREIF Property Index, Russell 3000 and Lehman Brothers U.S. Aggregate

Atlanta Metro Loses Jobs in 2003

The Atlanta metro area finished 2003 with a small net loss of 16,800 jobs a recent Atlanta Journal-Constitution article reported. This was a surprising reversal of the initial report which concluded that Atlanta had *added* almost 68,000 jobs over the year. The Georgia Labor Department routinely revises initial estimates as their research is finalized, yet revisions, typically, are not this severe. The reason given is that the initial estimate did not include data from companies that went out of business during the year. You would think that would be the first place they would look.

Atlanta Office and Industrial Market

Though the metro real estate indices have yet to show improvement in rents or occupancy, area brokers are upbeat based upon a step up in interest by firms looking for new space.

The Atlanta office market ended 2003 with a 17.4% vacancy rate, an increase from 16.6% at year-end 2002, according to the year-end Co-Star Report. The overall office market enjoyed positive absorption for the year at just under 500,000 square feet. Though hungry for any good news, enthusiasm is tempered by the paltry amount of absorption when compared with the existing inventory of over 200 million square feet. In fact, the absorption amount was so small that it still caused the market to lose further ground as it could not effectively absorb the new space coming on-line in a comparatively quiet year in new construction. The past couple of recession influenced years notwithstanding, the Atlanta economy is a job creation machine. This economic engine drives new commercial development. Since development has a lag time of between 12 months and 3 years, it is akin to turning a battleship when the tide is going out. As companies cut back aggressively in 2001 and other companies, especially tech companies, went out of business, development that had been planned in the late 90's was just coming on-line. The combination of new space and decreasing spatial needs collided, resulting in skyrocketing vacancy levels. Vacancy was as low as 10% as recently as 2000. Projections are for positive absorption again in 2004 with real improvement in the vacancy rate. This should position us for real rental rate increases in 2005.

2003 was another tough year for the Atlanta industrial market, with net negative absorption for the second straight year. The lack of demand from tenants resulted in a significant portion of the 3.4 million square feet of new industrial space to deliver vacant. Area brokers see a bright spot in the fourth quarter with a net positive 1.6 million square feet absorbed. According to Co-Star, current vacancy is just over 14% with a total inventory of over 500 million square feet. Atlanta houses substantial amounts of both bulk warehouse/distribution and flex space. Both are equally weak today, though there are some reports of large bulk users returning to the market. Though signs of the large users coming back are well received, the market will need 30,000 to 50,000 square foot

users to come back strong to get vacancy back in the single digits and drive meaningful rate increases.

Investment Opportunities Hard to Come By

The investment market remains intensely competitive. Capital is abundant and deal flow is still subdued. You would think that the sheer volume of capital available for purchase of commercial real estate would bring out the sellers but this is not the case. Many property owners have taken advantage of attractive financing rates and put long-term debt on their properties. This debt often carries punitive prepayment penalties that discourage a sale, even at a low capitalization rate. Other owners have opted for short-term floating rate debt which creates an incredible yield to the equity invested. I consider the current low floating rates to be the “cocaine” of the real estate industry today and expect some degree of disruption should short term rates increase materially. Would-be sellers report to be “one lease away” from putting their property up for sale, waiting for material improvement in the vacancy rate.

In the face of this dearth of deal flow, I have focused on getting the word out to brokers and owners of my appetite and keeping the investment window as broad as possible. This has also included an aggressive program of unsolicited offers to property owners. The following highlights investment pipeline activity to-date.

Broker generated deals:

Watkins Business Center—business park containing 75,617 square feet of flex space. I bid \$4.1 million. The property is under contract at a reported amount of over \$4.4 million.

Carr America Portfolio—three buildings of the total 11 building portfolio comprising 230,405 square feet of office and flex space. I have declined to bid due to short term lease expirations throughout the properties.

Powers Ferry Landing—eleven building office park containing over 500,000 square feet of office space. This was bid in partnership with an institutional investor. Our bid of over \$30 million is still awaiting word of final decision by the seller. We are not counting on winning as we have heard of several bids topping ours by \$3+ million.

Gwinnett Business Park—a 47,030 square foot flex building. My bid of more than \$2 million is awaiting decision from the seller. The broker representing the seller has reported back that my bid is “low, but in line.”

35 Technology Park South—39,830 square foot flex building. Declined to bid due to the very short-term nature of all of the leases in the building.

Commonwealth Industrial Park—two warehouse distribution buildings comprising approximately 150,000 square feet. Declined to bid due to the rents of the current tenants being materially over market driving the offered price substantially over replacement costs.

Unsolicited Offers:

Bank of America office building—a 38,000 square foot office building. My bid of \$1.3 million was rejected by the owner as too low. I am working with the owner's broker to determine a price at which they would consider selling.

La Vista Business Park—a 216,310 square foot industrial building. Though my bid of over \$6 million was well received by the owner, ownership is combining this asset with two others that they hope will increase marketability. We should expect a package in the next several weeks.

Enterprise Way—a two-building flex property. Ownership declined to consider selling the asset.

I have been pleased by the volume of deal flow I have been able to generate in the short 8 weeks since starting. Credit for a lot of this goes to my association with Hailey Realty Company. Hailey Realty is a 30 year private, real estate company specializing in industrial, office and land investments. Their longevity, professionalism and industry contacts have provided me with a tremendous head start.

I look forward to bringing to you a first transaction for consideration. In the interim, should you have any questions, please do not hesitate to contact me.

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