



To Investors and Friends

I am pleased to report to you on certain relevant economic factors and on my activities during the first quarter of the year. This letter will highlight commercial mortgage activity as well as provide an update on the Atlanta economy.

First Deal Circled

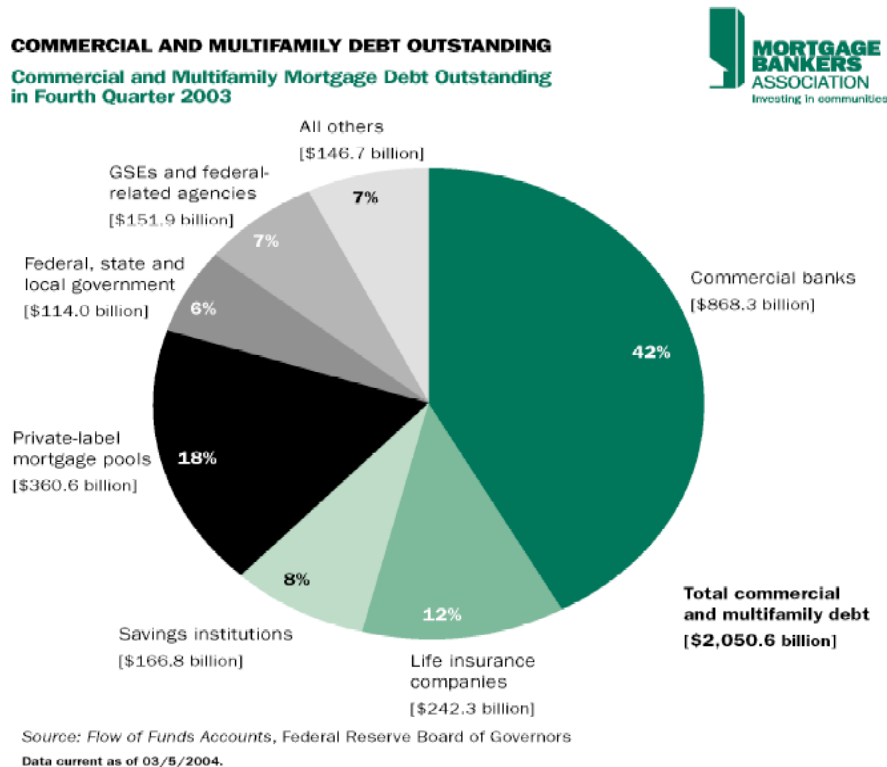
I am pleased to report that I have reached agreement for the purchase of Interchange Business Center, a 97,000 SF flex industrial property located in NE Atlanta. This property is to be purchased for just over \$4 million. I expect to sign an application for the acquisition loan this week and am scheduling closing for the last of July. I have been pleased with early investor interest for this transaction as commitments for 2/3rds of the equity needed to close have been received, not including investment by myself and certain principals of Hailey Realty in the minimum amount of \$100,000.



Commercial Mortgage Originations Remain Strong

The nation's lenders to commercial real estate kept the lending window open wide during 2003. Buoyed by relative health in the sector and a flood of capital to invest, total originations by traditional life insurance companies, mortgage conduits and Fannie Mae and Freddie Mac was \$72.5 billion. This reflects a 15% increase over volume for 2002.

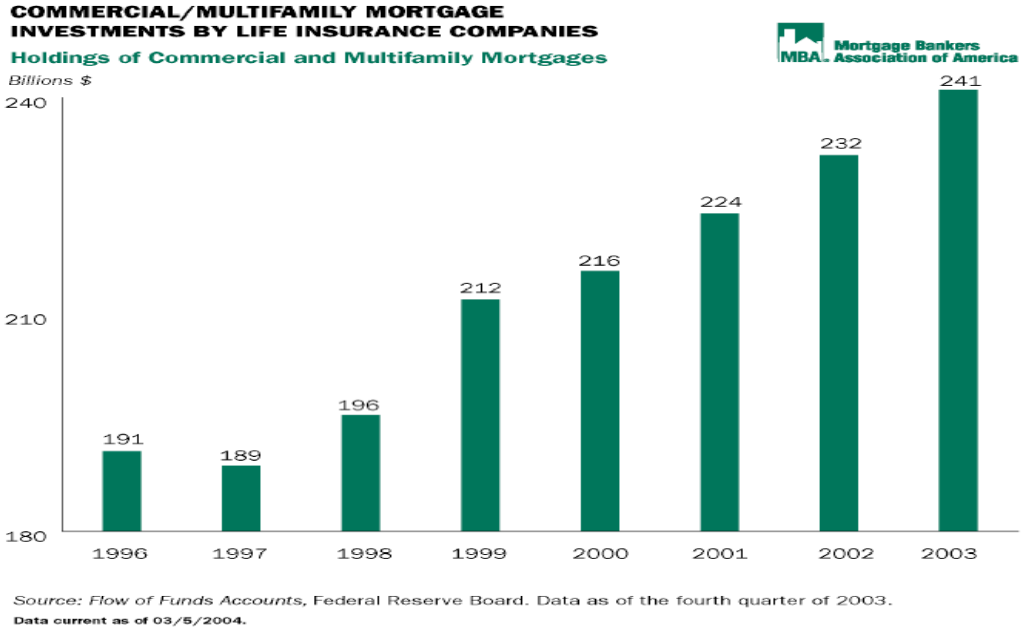
As can be seen from the following chart, commercial real estate lending remains dominated by the country's commercial banks:



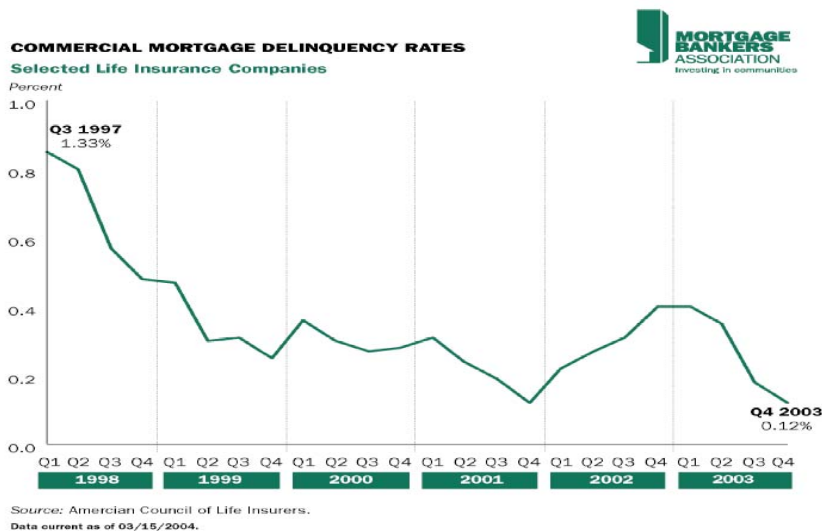
Interestingly, commercial banks have remained dominant in the face of the tremendous growth of the mortgage conduit industry. Residential loans have been securitized since the 1970's. Today, approximately 75% of the mortgages on the single family homes in the United States are sold into the securities market through companies like Fannie Mae and Freddie Mac. In the early 1990's, commercial mortgage loans began to be aggregated into loans pools for sale into the securitization market. From these modest beginnings, "conduit" loans, as they are called due to the lenders being a "conduit" from which the loan moves to the securities market, are now a major supplier of capital to the commercial real estate industry. As the graph above shows, conduit loans (identified as private mortgage pools) now constitute 18% of the entire commercial mortgage industry.

As commercial banks are the leader in supplying short-term capital to real estate projects, the life insurance industry is long the traditional go-to lender for commercial property owners looking for long-term financing. In the face of the rapid growth of the conduit lenders, the life insurance lenders remain extremely active. In fact, life insurance

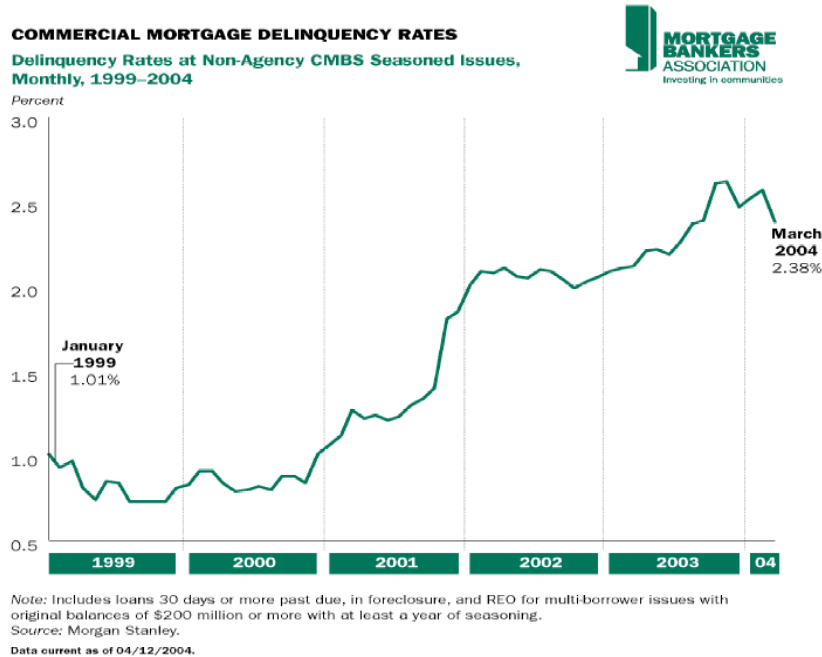
companies have seen their total volume of commercial real estate loans grow from \$191 billion of holdings in 1996 to \$242 billion now.



This impressive growth in lender appetite for commercial real estate has surprised industry observers who predicted a slow down in the face of declining fundamentals of commercial real estate from 2001 through 2003. Though vacancies have increased and rental rates decreased from their peaks in 2000, loan delinquencies have remained at historical lows. The following shows life insurance company loan delinquency performance from 1997--where the percentage of delinquent loans was a mere 1.37%--to today's number which is almost statistically non-existent.



Even conduit lenders, considered to be more aggressive than the life companies, have seen delinquencies rise to only a very modest level.



This increased appetite for commercial real estate loans has been one of the main drivers to strength of the real estate market in the face of a tough leasing environment. My earlier letter to you highlighted the increasing allocation to commercial real estate from pension funds. The ready availability of debt capital has propelled greater investment activity by the private investor as well.

A recent article in the Wall Street Journal recognized this and explored the counter risk of rising interest rates on investor appetite. The Journal article, written by Ray Smith and entitled Will an Interest Hike Cool Investor Demand, referred to forecasts from three real estate research firms that values and prices at best will stagnate and at worse decline sharply from a rise in interest rates. Seen worse hit is the office sector, which is now experiencing very tough fundamentals. Two of the identified research firms do allow that a predominant factor in their forecast for a 15% to 20% decline in office values is that many of the leases that expire in the next few years are currently at above market rates. When combined with an increase in interest rates, the above market rents work as a one-two punch to fell office building values. Industrial is expected to be impacted, but less so than office buildings.

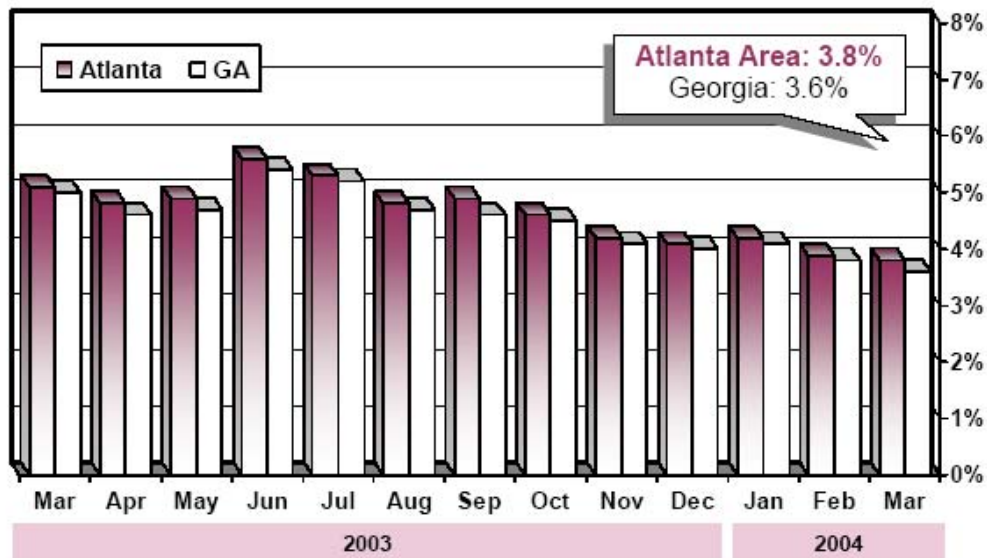
A simple analysis shows the impact higher interest rates will have on investors. Private investors, as opposed to institutional investors like pension funds, typically use significant debt when acquiring property. Let's assume that a property is to be acquired

for \$5 million that will produce a cash return on investment of 8%. Assuming a 75% loan to value loan on the property and assuming transaction costs of \$150,000, investor equity is \$1.4 million. If the loan is at a rate of 5.5% and a 25 year amortization, the cash return on the equity is 8.83%. Should rates increase 100 basis points to 6.5% (still an attractive long-term rate) the cash return reduces dramatically to 6.87%. Thus, in this example, a 100 basis point increase in rate equates to a 200 basis point decrease in yield.

Atlanta Shows Increase in Jobs for April

A recent report from the Georgia Department of Labor showed Atlanta added 8,500 jobs in April. This brings annual year-to-date job growth to almost 20,000. Unemployment for the Atlanta MSA decreased to 3.8%. This remains slightly above the unemployment rate for the entire state of 3.6%. Atlanta remains the economic engine for the state as well as a leader in the region and nation in new jobs. Leasing brokers are reporting the early signs of pick-up in interest and activity from tenants. As is typically the case, job growth is a leading indicator of real estate demand.

Unemployment Atlanta Area Compared to Georgia



Note: Atlanta Area includes Barrow, Bartow, Carroll, Cherokee, Clayton, Cobb, Coweta, DeKalb, Douglas, Fayette, Forsyth, Fulton, Gwinnett, Henry, Newton, Paulding, Pickens, Rockdale, Spalding and Walton counties.

Source: Georgia Department of Labor - Michael L. Thurmond, Commissioner

Investment Pipeline

Little has changed from my last report on the current investment climate. Buyers still outnumber sellers and sellers retain an impression of value that is most politely described as unrealistic. There are reports of increased seller activity. At the price point in which I participate, more than one potential seller has expressed a concern regarding interest rates and its impact on capitalization rates.

My current pipeline is as follows:

Three Property Industrial Portfolio—I had originally bid for La Vista Business Park, a 216,000 square foot multi-tenant industrial property. The owner combined La Vista with two other industrial properties for a combined 470,000 square feet. My bid is still outstanding, waiting on the seller to evaluate 1031 exchange options.

4690 Hammermill Road—This is a small, four-tenant industrial property located near Stone Mountain, comprising approximately 39,000 square feet. My bid is only recently in and I am awaiting response from the seller. My bid is about 20% less than the asking price from the seller.

Georgetown Square II—This Williamsburg office development just outside I-285 in Dunwoody was quietly placed on the market. I offered just under \$4 million, approximately \$500,000 below the asking price. The property is suffering from poor management and weak occupancy and has an old permanent mortgage that cannot be prepaid without a stiff penalty. Perhaps a few more months of feeding the mortgage will get the seller to reconsider my offer.

Jackson Parkway—This is a small, four building industrial property that gave me a pre-emptive look. My bid was attractively priced, but the seller has owned the property for quite some time and is uncertain of its 1031 exchange possibilities and decided not to sell at this time.

Gwinnett Business Park—Duke Realty marketed for sale their entire portfolio of industrial properties in their Gwinnett Industrial Park. I evaluated bidding on two of the sub-portfolios which contained industrial and flex space. I declined to bid on the industrial portfolio due to its limited functionality and declined to bid on the flex properties as they were leased at rates that were significantly over-market. You may recall that I bid on a single asset in that park for about \$2 million. Though my bid was highest among 10 offers received, it was still not high enough for Duke to sell.

Dead Deals:

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 was beat out by at least three other bidders and the winning bid is reported to be approximately \$35 million.

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. To my knowledge, the building has not sold.

120 Interstate West—I was able to be one of only two bidders considered for this 70,00 square foot industrial property off I-20 west in Douglass County. Unfortunately, my bid of \$2.3 million was beat out by a bid of an estimated \$2.4 million.

2575 Cobb International Boulevard—This is a 51,200 square foot multi-tenant industrial property that constituted an unsolicited offer to the owner. I priced the transaction on a 9% cap rate, where the owner was looking for about 7%.

I remain pleased with the opportunities I have been able to surface and look forward to reporting to you in the future. Please feel free to contact me if I can answer any questions or be of service.

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