



Market Commentary

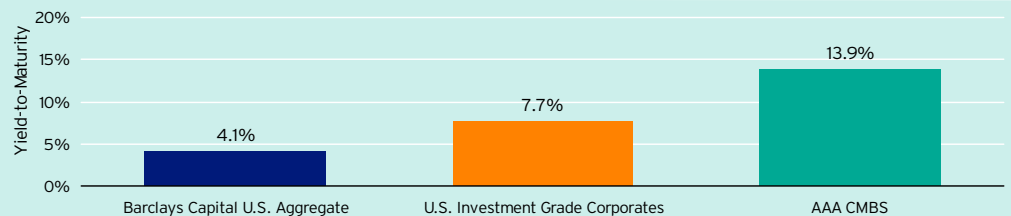
Real Estate Debt Performance Indicators SECOND QUARTER 2009

AAA CMBS currently providing unlevered yields on a hold-to-maturity basis in the mid-teens.

Securities high in the capital structure should benefit first from any increase in liquidity and credit market normalization.

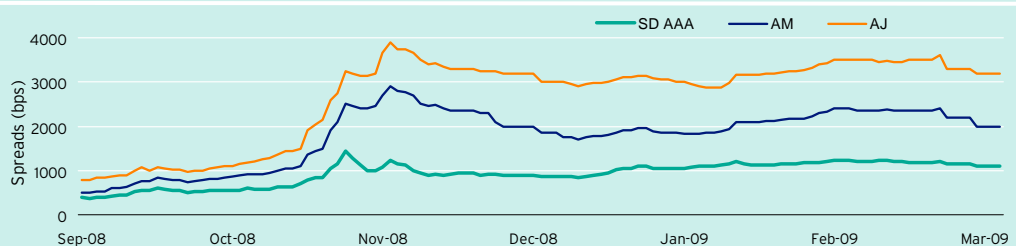
- Asset de-leveraging and forced selling has produced considerable declines in Commercial Mortgage-Backed Security (CMBS) pricing. Even the most senior AAA CMBS, which benefit from substantial subordination, have been impacted as prices have declined across the sector regardless of a security's seniority in the capital structure. The relative liquidity of the AAA CMBS market compared to lower rated credits has resulted in additional CMBS spread widening as managers subject to investor redemptions have been faced with the challenge of selling relatively liquid assets to raise capital.
- After a brief rally during January, the pricing of AAA CMBS again approached levels witnessed during the end of November 2008, offering unlevered yield-to-maturities from 12% to 16%. Market sentiment did improve with the recent Treasury announcement of the Private-Public Investment Program which helped yield-to-maturities to end the quarter at 11% to 15%. Even though price volatility is expected to remain elevated during the first-half of 2009, this dislocation may allow for the opportunity to identify mispriced commercial property fundamentals at a discount relative to the value of expected cash flows.
- While further deterioration is expected in the overall economy and the commercial real estate sector, senior CMBS classes provide high current cash yields as well as anticipated attractive total returns. Additionally, the current relative lack of pricing differential between stronger and weaker credits provides the ability to invest in securities with a lower risk profile but with comparable yields. Based upon attractive risk-adjusted returns, it is expected that price tiering among CMBS transactions will become more prevalent as new investors begin to enter this sector in search of value.
- Eventually, investors will likely return to the marketplace which may cause less liquid asset prices to correct. As forced selling subsides and the market normalizes, AAA CMBS pricing should receive a greater benefit relative to lower-rated and less liquid bonds, which we expect to lag in a recovery.

Fixed Income: Relative Pricing



Source: Barclays Capital as of March 31, 2009.

CMBS AAA Spread Timeline



Source: Barclays Capital as of March 31, 2009.

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AAA CMBS is senior in the capital structure providing credit enhancement from deteriorating performance.

Commercial Mortgage Performance

Despite historically low commercial mortgage delinquency rates, loan performance continues to deteriorate as the economy moves further into recession. Commercial mortgage delinquency rates reached 1.55% at the end of February 2009, which is an 11 bp increase from the prior month. Even though the current pace of delinquency increases is somewhat steeper than the prior recession, this pace has started to slow from the third quarter 2008 remittances. With commercial real estate fundamentals tending to lag to the economy, delinquencies could reach between 3-5% or higher by the end of 2009 and increase throughout 2010. It has been noted that the most significant risks for asset performance declines are prevalent in late 2006 and 2007 vintage transactions which were generally issued with more aggressive underwriting standards, including higher leverage. Some of these issues have already experienced stress and are expected to come under increased pressure.

CMBS Delinquency by Property Type

Property Type	Percent Balance	01-08	02-08	03-08	04-08	Jan 09	Feb 09
Retail	30.9	0.3	0.3	0.4	1.1	1.4	1.6
Multifamily	16.1	1.5	1.6	1.7	2.7	3.4	3.5
Office	30.4	0.2	0.3	0.4	0.6	0.7	0.8
Hotel	7.9	0.4	0.4	0.4	1.2	1.3	1.5
Industrial	5.2	0.4	0.3	0.4	0.9	1.0	1.0
Mixed Use	4.2	0.1	0.1	0.3	0.5	0.7	0.6
Senior Housing	0.2	0.7	6.4	6.6	7.9	8.9	1.5
Manufactured Housing	1.8	0.4	0.4	0.6	0.9	1.1	1.0
Self Storage	2.0	0.2	0.1	0.1	0.2	0.2	0.4
Warehouse	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Co-op Housing	0.4	0.0	0.0	0.0	0.0	0.1	0.1
Other	1.0	0.6	0.6	0.6	0.6	0.9	1.1
Average	100.0	0.5	0.5	0.6	1.2	1.4	1.6

Source: Citi as of March 2009 with information provided by Trepp.

Even with the expectation of continued real estate fundamental deterioration and possible expansion of cap rates, it is believed that the majority of senior AAA CMBS underperformance in 2008 as being technically driven and not based on projected security performance. The supply/demand imbalance, which was compounded during the fourth quarter 2008, was exacerbated by investors selling securities to raise capital as AAA CMBS provides better relative liquidity to many other fixed income instruments.

For the most senior AAA CMBS securities, which typically benefit from 30% credit enhancement, underlying loan defaults would have to reach 75% with each defaulted loan incurring a 40% loss severity for principal to be impacted. Additionally, considering that the most senior AAA securities trade at a discount, underlying loan defaults would have to reach 100% for losses to occur on dollars invested.

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Possibility of \$1 trillion total buying power for legacy assets

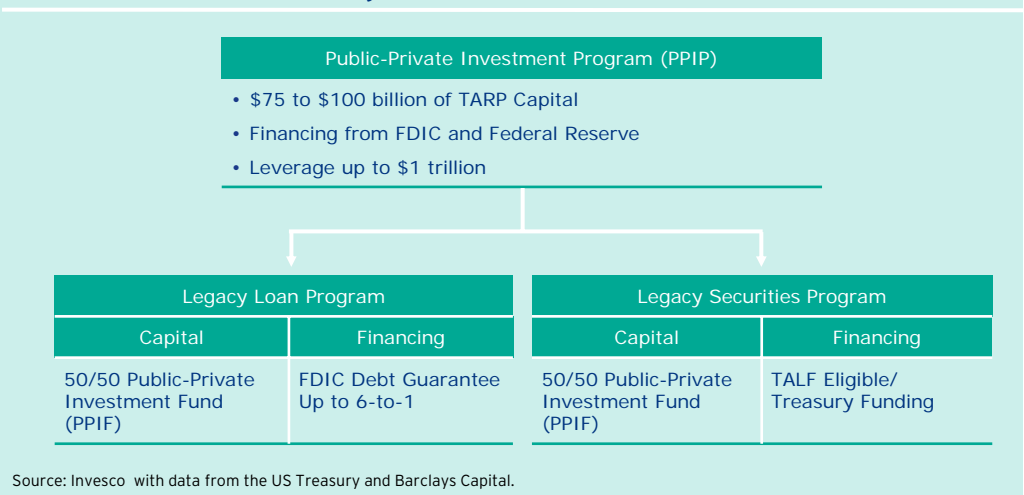
CMBS should benefit from LSP due to its fixed-rate structure, longer-term average life, and currently discounted prices

Government Policy Action Updates

The U.S. Treasury recently unveiled its plan to confront legacy assets with the announcement of the Public-Private Investment Program (PPIP). The program is intended to address constraints created by real estate loans (Legacy Loan Program) and securities (Legacy Securities Program) held on the balance sheets of financial institutions. Through the utilization of financing provided by the FDIC, Treasury, and the Term Asset-Backed Lending Facility (TALF), PPIP will attempt to motivate private investors to begin acquiring residential and commercial assets. In addition, the Treasury intends to supply capital investments in conjunction with private investors. The goal of the program is to increase liquidity, provide price discovery for existing assets, and ultimately revitalize the flow of capital.

- PPIP is expected to access \$75 to \$100 billion of Troubled Assets Relief Program (TARP) capital. After factoring in the expected leverage multiplier, the purchasing power is estimated to reach between \$500 billion to \$1 trillion.
- The Legacy Securities Program (LSP) is expected to be the most successful as holders of these assets have, in many instances, already reduced balance sheet values to reflect market conditions. Loans held on balance sheet are often not subject to mark-to-market and frequently institutions have not yet adjusted assets to market pricing. Consequently, the Legacy Loan Program (LLP) may have initial difficulty as loan portfolio holders may be reluctant to sell assets marked below carrying values.
- Fixed-rate assets with long average lives should be among the assets whose prices benefit the most from the injection of low-cost financing. Specifically, AAA CMBS should be attractive to potential users of LSP and could possibly experience a recovery from current discounted prices as the Treasury's plan is implemented.

Public-Private Investment Program (PPIP)



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