



e-Newsletter

May, 2011



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THANKS FOR WRITING IN

Thanks for writing in. Please keep those cards and letters coming. We enjoyed this recent email: "Thank you for sending me your newsletter. I read it, in its entirety, and find the articles to be informative, well written and timely. As insurance brokers dedicated to serving the real estate industry, we stay abreast of developments and trends to better serve our clients. Your newsletter helps us stay on top of macro issues and key trends and developments."

We've had a great response to our newly redesigned Pathfinder website. If you haven't visited the site yet, we invite you to do so – www.pathfinderfunds.com.

Thanks to those of you who have guest-written features for recent newsletters. If you have expertise in an area that could be of interest to our readers and would like to guest-write an article for an upcoming issue, please email us at info@pathfinderfunds.com with information about your proposed subject matter – we will be happy to consider it for a future edition.

CHARTING THE COURSE

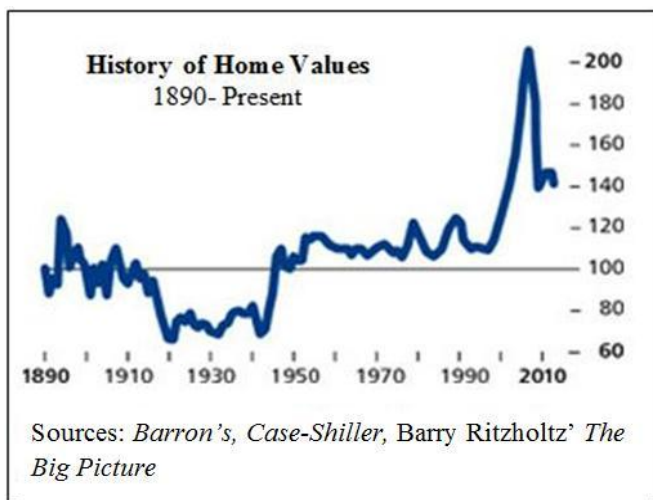
Home Prices Continue to Sink

By: Mitch Siegler, Senior Managing Director



Notwithstanding the ebullience of stock market bulls and the Obama administration's spin on April's 244,000 job gains, the economic ship of state still has one gaping hole in its hull – housing.

On May 10th, Seattle-based real estate website Zillow announced that 28% of American homeowners with a mortgage, more than 7.5 million, were “underwater” during the first quarter of 2011 – meaning the amount of their mortgage exceeds the value of their home. This is an increase from the 27% underwater rate during the fourth quarter of 2010. The metric has leapt from 22% a year ago – a direct result of the 8.2% decline in average home values during the past year, according to Zillow.



Check out this chart, derived from data compiled by Yale economist Robert Shiller of Case-Shiller Index fame. Steve Barry updated the data for Barry Ritholtz' *Big Picture* blog to show home value trends (adjusted for inflation) dating back to the late 19th century. The chart illustrates the fallout from the recent über-bubble in housing, which peaked in July, 2008 and has been deflating at a precipitous rate ever since.

Everyone is above average in Lake Wobegon and the situation is better than the national average in our very own San Diego market where the “underwater” rate is 26% (up from 22.3% in the same period in 2010; still below California's 32% level). Zillow gives the gold medal in this dubious category to Phoenix at 68.4% with Tampa taking silver at 59.8% and Atlanta bringing home the bronze at 59.8%.

Stan Humphries, Zillow's chief economist says "Home value declines are currently equal to those we experienced during the darkest days of the housing recession." According to Humphries, "With accelerating declines during the first quarter, it is unreasonable to expect home values to return to stability by the end of 2011...underlying demand, post-tax credit, as well as rising foreclosures and high negative equity rates make it almost certain that we won't see a bottom in home values until 2012 or later."

Our friend, Mark Hanson of the eponymous Mark Hanson Advisors has, like radioman Paul Harvey, the rest of the story. Mark (whose "The Housing Affordability Myth", which appears in this issue and is a must-read) reminds us not to forget the Nor'easter heading straight at millions of additional homeowners with just a skosh of equity in their homes – what Mark dubs "effective negative equity." These are the folks who can't afford to sell their existing home to buy another because to do so would cost them another 6% in brokerage commissions plus 2% to 4% in title, escrow and closing costs. Oh, and that's before we talk about the 10% to 20% in down payments those pesky banks are now requiring in today's more stringent lending environment.



Our research indicates that there are 3.5 million previously owned homes currently listed for sale and another two million homes in foreclosure or in some stage of default. With the robo-signing scandal behind them, banks are now steaming ahead to foreclose. Add it all up and we think the total inventory, including shadow inventory overhanging the housing market is in the 7.5 to 8.0 million range.

By all accounts, banks and loan servicers are slashing asking prices to move through the inventory. We're now moving out of the peak spring selling season into the summer and fall doldrums. Zillow expects prices nationwide to fall another 8% by year-end. Other analysts, like Mark Zandi of *Moody's Economy.com* think the range is 5% to 10%. As the chart above shows, it could be worse, since we remain 40% above the long-term trend line – a level to (or below) which prices have a nasty habit of reverting following a bubble. We want to believe. But, we're not going anywhere without our rain slicker, galoshes and a sturdy umbrella.

Mitch Siegler is Senior Managing Director of Pathfinder Partners, LLC. Prior to co-founding Pathfinder in 2006, Mitch founded and served as CEO of several companies and was a partner with an investment banking and venture capital firm. He can be reached at msiegler@pathfinderfunds.com.



SELECTED PATHFINDER CLOSED TRANSACTIONS

Pathfinder Partners, LLC is the sponsor of the Pathfinder Opportunity funds, which acquire with institutional capital partners, distressed real estate properties and the underlying mortgages from financial institutions.

| | | |
|--|---|--|
| <p>HUNTER'S CHASE CONDOS</p> <p><i>The acquisition of a 20-unit condominium complex near Denver, CO</i></p> <p>April, 2011</p> | <p>OTAY OFFICE CONDOS</p> <p><i>The acquisition of a six-building, 68,000 square foot office condo Project in Chula Vista, CA</i></p> <p>April, 2011</p> | <p>METRO LOFTS</p> <p><i>\$3,800,000 defaulted senior mortgage on a new, seven-unit mixed use project in Berkeley, CA</i></p> <p>December, 2010</p> |
| <p>LAS BRISAS CONDOMINIUMS</p> <p><i>The acquisition of an 18-unit condominium project in Long Beach, CA</i></p> <p>October, 2010</p> | <p>HAWTHORNE 44</p> <p><i>\$6,500,000 defaulted senior mortgage on new, 27-unit condo project in Portland, OR</i></p> <p>September, 2010</p> | <p>HEWITT ST. LOFTS</p> <p><i>\$12,500,000 defaulted senior mortgage on new, 33-unit condo project in Los Angeles, CA</i></p> <p>September, 2010</p> |
| <p>ISIS CONDOMINIUMS</p> <p><i>The acquisition of a new, 41-unit condominium project with ground floor retail in Orlando, FL</i></p> <p>August, 2010</p> | <p>CRIMSON PARK</p> <p><i>\$26,500,000 defaulted senior mortgage on a 268-unit student housing property at the University of Oklahoma (Norman, OK)</i></p> <p>August, 2010</p> | <p>VALENCIA HOMES</p> <p><i>The acquisition, from a commercial bank, of the Valencia subdivision, a 72-unit detached, residential project in Coachella (Riverside County), CA</i></p> <p>July, 2010</p> |
| <p>LEUCADIA SHORES APTS.</p> <p><i>The acquisition of a 14-unit "value-add" apartment project in the beach community of Leucadia (San Diego County), CA</i></p> <p>July, 2010</p> | <p>COLORADO PORTFOLIO</p> <p><i>The acquisition, from a commercial bank, of a portfolio of eight residential projects in Denver and Colorado Springs, Colorado</i></p> <p>December, 2009</p> | <p>BLAIRWOOD CONDOMINIUMS</p> <p><i>The acquisition, from a commercial bank, of 19 new, class-A townhomes in Carmichael (Sacramento County), CA</i></p> <p>December, 2009</p> |

FINDING YOUR PATH

A Changing World

By: Lorne Polger, Senior Managing Director



I just returned from the ICSC – the International Council of Shopping Centers – annual convention in Las Vegas. Lots of great observations on the retail world (will get to those in a moment).

At the airport and the convention center, I saw more laptops, iPods, iPads and the like than I could count. Maybe it's just me getting older, but I'm struck by the unbelievably rapid pace of change. Change in technology, change in the way business gets done, change in consumer habits, change in demographics and change in attitudes.

A few interesting examples:

- According to the U.S. Census Bureau, in 1997, 18% of U.S. households had access to the Internet. In 2009, only 12 years later, the number rose to 68%, a 377% increase.
- In 1984, only 8% of U.S. households had a computer. Today, it's more than 70%.
- In 1990, just 2% of the U.S. population (about five million) subscribed to a cellular service. In 2010, it was 91%.
- Not surprisingly, e-commerce related activity has soared during this same period, from 1.3% of total retail sales in 2002 to 4.5% of total retail sales in 2010. The Department of Commerce estimated that first quarter 2011 e-commerce revenues were over \$46 billion, a 17.5% year-over-year increase.
- Based on its closing stock price on the second day of trading after its IPO, the market capitalization of Linked In Corporation was \$4.1 billion. In 2010, Linked In's revenues were \$292 million and its earnings \$37 million. Linked In was founded in 2003; pretty remarkable except when you consider that Facebook was founded in 2004. According to Bloomberg, in 2010, Facebook had revenues exceeding \$2 billion and currently has over 600 million users. These companies have been around for less than a decade.
- In 1980, Hispanics made up 19.4% of the population in California and 6.4% of the U.S. population. By July, 2009, those numbers had risen to 37% in California and 16% in the U.S. Hispanics are expected to account for 20% of the nation's population by 2030.
- In 1940, New York had 45 seats in Congress. Today, due to population shifts, New York has 27 seats in Congress. From 2000 to 2010, Nevada and Arizona's populations grew at 35.1% and 24.6%, respectively. During that same time period,

Michigan's population dropped 6%, while Ohio and New York's grew at only 1.6% and 2.1%, respectively.

- Finally, in the close to home department, attendance at the annual ICSC (International Council of Shopping Centers) convention, a key barometer for retail real estate, peaked at 41,000 in 2005, dropped to around 15,000 in 2008 and was estimated at over 30,000 when it convened in Las Vegas last week.

Interesting data points for sure. A number of actionable takeaways, too.

First, the Internet is a leading change agent in consumer habits. I travel frequently for business. It's pretty rare these days to see the majority of fellow passengers sitting at the gate without either a laptop or an iPad in their hands. As access has steadily improved and prices have fallen, e-commerce transactions have skyrocketed. Barriers like security concerns or inability to touch and feel the merchandise are far behind us. That doesn't mean that bricks and mortar retail businesses will go the way of the horse and buggy. But it does portend a somewhat bleaker existence for certain aspects of retail commerce. I enjoyed going to Border's to browse the bookshelves, grab a cup of coffee and perhaps run in to a friend. But ultimately, I'm an Amazon buyer.

Second, the amount of information available to the consumer and the speed at which the information has become available are staggering. For the most part, we have become much smarter and savvier in our purchasing practices. I will spend significant time conducting research on the Internet when it comes to a larger ticket (\$500 or more) purchase. As a result, I believe the amount of impulse purchasing will continue to decline and profit margins on retail transactions will continue to shrink. There's just too much competition and data out there to overpay for something today.

Third, social media will continue to change habits. Over just the last few months, we've seen how social media can transform autocratic regimes in the Middle East. As it continues to burgeon, think about how it will affect more mundane things like fashion, entertainment, media and information distribution.

Fourth, shifting population demographics will have a significant effect on retail spending habits. As a country, we're continuing to move west and south. We are more multicultural, and are increasingly Hispanic. We're older in the East and younger in the West. Retailers will continue to heavily monitor demographic trends and fight to be in the "must be in" markets. Cultural influences will, in turn, continue to influence consumer spending.

Fifth, retail is back. There is clearly a greater sense of optimism in the air. Not to suggest that we are frothy with enthusiasm to again deplete home equity piggy banks, but the resurgence of the stock markets, the prevailing sentiment that we are currently bouncing along the bottom and even the very modest uptick in employment numbers bodes well for certain aspects of consumer spending. Lots and lots of retail deals got done this year at ICSC. That's something that hasn't happened for quite a few years.

We're not rushing out to buy shopping malls. Frankly, you can make a strong argument that we have already seen the glory days of the anchored regional mall, notwithstanding some of the positive trends noted above. But, we are starting to see some interesting, select opportunities on the retail front. Generally speaking, these are Big Box-anchored centers in well located areas that exhibit solid population growth and are near employment hubs. If the cost basis can be properly reset on some of those 2006 and 2007-vintage deals, they may offer a sufficient return to warrant consideration.

Lorne Polger is Senior Managing Director of Pathfinder Partners, LLC. Prior to co-founding Pathfinder in 2006, Lorne was a partner with a leading San Diego law firm, where he headed the Real Estate, Land Use and Environmental Law group. He can be reached at lpolger@pathfinderfunds.com.

GUEST FEATURE

The Housing Affordability Myth

By: Mark Hanson, Managing Director, Mark Hanson Advisors

After a few months filled with housing reality, that as we projected, brought about a consensus shift in outlook in the second quarter, it is a great time to update one of my favorite charts entitled the *Great Housing "Affordability" Myth*.

One of the bedrocks to mainstream economists' housing forecasts is how "affordability is at record highs." In fact, you have heard this constantly since housing (and rates) first began to decline. This is simply another "new normal" example of how old-school housing indicators such as the National Association of Realtors' Housing Affordability Index (HAI) and widely followed data have led to other than real-world conclusions and buyers hanging their investment hat on a single, perhaps flawed, metric.

Bottom Line

Even with house prices so far off their 2006 peak, real-world affordability for buyers requiring a mortgage isn't any better today than in periods prior, particularly during the 2003 to 2007 bubble years. In fact, housing is *less affordable* in many of the most hard hit and economically influential regions in the nation.

Comparing Apples and Oranges

The affordability metric is derived from prevailing house prices, interest rates/monthly mortgage payment, and household income inputs. Little comparison work is ever done on just how many tens of millions of potential buyers have been lost indefinitely over the past three years due to *effective* negative equity, loss of jobs or reduction in income, tighter credit guidelines, demographics, etc.

Remember, four years ago a household earning a little more than \$100,000 per year could legitimately ‘afford’ to buy a million dollar house with little to no money down and an average credit score. Now, to buy the same house you have to be a millionaire, need a down-payment of \$271,000 (in order to obtain a Fannie Mae jumbo loan of \$729,000), prove earnings of over \$200,000 per year for the past few years and have perfect credit. God forbid if one has to sell their present residence for the down payment or in order to qualify, which most do.

Additionally, in the past, if a homeowner wanted to sell and move-up but didn’t have enough income or equity to pay off the mortgage(s), pay a realtor the 6% commission and put a down payment on the new purchase, it didn’t matter. They could always choose a no-down and limited documentation loan. This made every homeowner a ready buyer all of the time.

The major problem with most affordability analysis is it compares apples to oranges. This is because in the states in the most trouble (and that matter the most to macro housing) during bubble years – when 40 million of the 55 million outstanding residential *refi* and purchase loans were originated – borrowers, by and large, used other than 30-year fixed rate loans.

So, comparing affordability today – when the primary options are 30 or 15-year fixed rate financing with a down payment required – to a time during the bubble years when there was a plethora of high-leverage, low documentation and optional down payment choices and the minority of originations were fixed rate loans is not ideal. Moreover, comparing today to pre-bubble eras when 30-year fixed rates and down payments were again the norm also is also less than optimal for a variety of other reasons, such as millions of excess vacant housing units, stubbornly high homeownership levels, historically low household formation, unfavorable demographics and epidemic effective negative equity to name just a few.

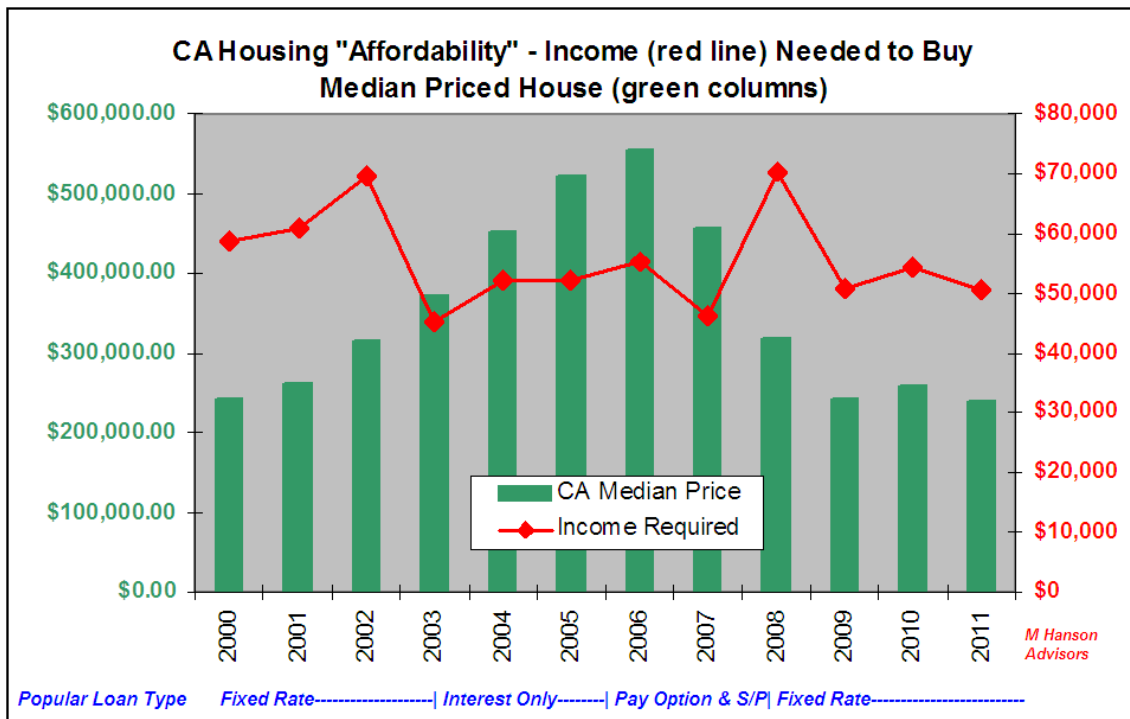
In short, we are in an extremely unique market with respect to demand and supply fundamentals for which I have not been able to find any comparisons.

Real-World Affordability

The chart below takes into consideration real-world monthly payment rates, down payment requirements, credit requirements and income levels needed during the bubble years – when high-leverage, exotic loan programs (interest only, Pay Option ARM, stated income, no-down, Subprime) were the norm – against today’s tighter lending standards (lower loan-to-values/more cash down, much better credit, lower allowable debt-to-income ratios) and provides a much better look at true affordability than the popular indices.

As you can see, for buyers who require a mortgage loan to purchase, real-world affordability is no better now than it was at the peak of the housing bubble when prices

were over 100% greater. In fact, it's worse than most periods from 2003 to 2007. And when considering that back then every homeowner was a ready buyer and now the minority can sell – for what it takes to pay off their mortgage(s), pay a realtor 6% and put 10% to 20% down on a new vintage loan – the demand side of the housing affordability argument becomes much clearer.



A Fundamental Demand Problem

At the end of the day, the U.S. suffers from a fundamental housing demand problem for which there is no easy fix, making the number of qualified buyers a fraction of what it used to be due to:

- Millions of excess vacant housing units;
- Stubbornly high homeownership levels;
- Epidemic *effective* negative equity;
- A massive default and foreclosure backlog;
- Historically low household formation metrics;
- Several months of confirmed month-over-month and year-over-year price declines;
- Unfavorable demographics;
- Less affordability relative to the bubble years;
- Soaring energy costs; and
- A broken mortgage market on complete government life support that continues to confirm we are in the midst of a credit crisis (i.e., those who don't need the credit

can get it and those that do need it, can't).

Thus, old-world *affordability* doesn't even carry as much weight as it used to as far fewer are in the position to take advantage of it.

Mark Hanson is Managing Director of Mark Hanson Advisors, a leading mortgage and housing analyst and consultant to major financial institutions and real estate investment firms. He is widely quoted in the media and makes frequent appearances on television financial news programs. Visit www.mhanson.com for more information.

ZEITGEIST – SIGN OF THE TIMES

A compendium of notable news articles relating to the economy, commercial lending and real estate which we've edited and commented upon.

Home-Ownership Rate Drops Below 65% to Level Last Seen in 1998

The Census Bureau reported homeownership and vacancy rates for the first quarter of 2011 on April 27th. According to *Calculated Risk's* Bill McBride, "The homeownership rate declined to 66.4%, down from 66.5% in the fourth quarter. This is the same rate as in 1998. The homeownership rate increased in the 1990s and early part of the 2000s because of changes in demographics and "innovations" in mortgage lending. "Some of the increase due to demographics (older population) will probably stick, so I've been expecting the rate to decline to around 66%, and probably not all the way back to 64%," McBride says.

Housing Starts Flounder



Happy days are nowhere close to being here again for home builders, as housing starts unexpectedly declined 10.6% in April and new single-family building permits fell 1.8%, suggesting the industry isn't coming out of its slump anytime soon. Instead of a double-digit decline, the consensus forecast had been for a modest increase.

April housing starts fell to a seasonally adjusted annual rate of 523,000 and single-family permits, which show the future prospects for new home builders, declined 1.8% to 385,000 according to the U.S. Department of Housing and Urban Development, a division of the U.S. Department of Commerce. Single-family housing starts and building permits remain in a downward trend – this is the seventh month in a row of lower building permits – this, despite a 4.63% 30-year fixed mortgage rate, the lowest level in five months.

2010 Apartment Foreclosures Double 2009 Levels

According to a report by the *Wall Street Journal*, Fannie Mae foreclosed on 232 apartments in 2010, more than double the 2009 level. In addition, loans on another 481 properties were seriously delinquent. About 39% of Fannie's seriously delinquent loans are in just four states – Arizona, Florida, Georgia and Ohio – states which account for only 10% of multifamily properties. California and New York account for 40% of Fannie's loans but represented just 3% of losses in 2010. About one-third of Fannie's losses last year came from properties acquired in 2007, at the peak of the real estate cycle.

[Editor's Note: During the past 60 days, we've been hearing that demand for apartments, even class B and C apartments, has become so strong that virtually all defaulted apartment loans are now being restructured with the borrowers or the properties are being sold via short sale. We anticipate fewer apartment foreclosures in the months ahead because of the strong values.]

Nearly One in Five Florida Homes Now Vacant

In April, the Census Bureau revealed that 1.6 million homes in Florida, more than 18%, are sitting vacant. In the hardest-hit county, Collier – where Naples is located – it's a staggering 32%. That's an increase of 63% over the past ten years. This large number of vacant homes is likely to continue to depress home prices and slow any housing recovery.

During the housing boom, Florida was one of the country's hottest real estate markets. The state's burgeoning population snatched up homes, as did investors, who were confident that prices would continue to rise. The housing bust brought things full circle. Development stopped. Retirees from the cold northeast halted relocation plans. Vacancies rose and prices plummeted.

Florida's vacancy problem is worse than any other bubble market: In California, only 8% of units are vacant. Even Nevada, which boasts the nation's highest foreclosure rate, had about 14% sitting empty. Arizona's vacancy rate is about 16%.

The inventory overhang has sent home prices plunging. The median price for homes sold in January was just \$122,000, according to the Florida Association of Realtors. That was down 7% from 12 months earlier and down more than 50% from peak prices. Many analysts predict a further 5% decline in Florida housing prices in 2011, a 3% to 5% decline in 2012 and a 'bouncing along the bottom' for several years thereafter.

Celia Chen, a housing market analyst for *Moody's Analytics* calls for a further 11% decline in Florida housing values and doesn't expect the state to hit bottom until mid-2012, a year after the country as a whole. Her recovery date for Naples – the late 2030s!



[Editor's Note: We remember looking at condo projects in south Florida in 2007. One view, through the window of a hoity-toity law office in the penthouse of a Miami skyscraper, is seared in our memories. We saw 40 or 50 cranes – dubbed Florida's "state bird" back in the day – through the window. Many of the pricey condos that came on line during the past four years remain unsold today – though the reset in prices and high pace of absorption surprised many, us included.]

U.S. Home Prices Down 8% in Past Year, Declines Continuing

If you thought the housing crisis was bad, think again. New data out in May from Zillow, the real-estate information company, shows home prices are falling at their fastest rate since the 2008 Lehman collapse. Zillow says average home prices are down 8% from a year ago, 3% over the last quarter, and are falling at about 1% each month. Zillow reported declines in all but four U.S. metro areas.

And the percentage of homeowners in negative-equity positions — with a home worth less than its mortgage — has rocketed to 28%, a new crisis high. According to Zillow, a record 16.3 million families are upside-down on their home loans. Zillow now predicts prices will fall 8% this year and no longer expects the market to bottom before 2012.



“There's no way we can get to flat, from these depreciation levels, in the last nine months of the year,” says Zillow economist Stan Humphries. “Demand is a lot more anemic than we had previously thought.” Humphries doesn't venture a prediction for when the market will bottom.

[Editor's Note: Remember those first-time homebuyer tax credits and other whistles and bells the government employed to prop up the housing market? Not very effective. The government spent about \$22 billion between 2008 and 2010 on tax breaks to prop up the housing market. “As we said at the time, it was a giant waste of money,” says Mark Calabria, economist at the conservative Cato Institute. Amen, Mark.]

S&P on U.S. Debt: “The Emperor Has No Clothes”

If you cut through the mumbo-jumbo in ratings agency Standard & Poor's April 18th announcement, S&P says America risks losing its AAA credit rating. “We believe there is a material risk that U.S. policymakers might not reach an agreement on how to address medium and long-term budgetary challenges by 2013,” said S&P, stating the obvious. “If an agreement is not reached and meaningful implementation does not begin by then, this would, in our view, render the U.S. fiscal profile meaningfully weaker than that of peer ‘AAA’ sovereigns.”

Talk about being the tallest midget in the circus. This, in the world of ratings agencies, is about as strongly worded as these statements come. You'll recall that S&P continued to rate scores of mortgage-backed securities 'AAA' right up to the point they defaulted in 2007-2008.

[Editor's Note: Officially, the U.S. remains the world's quintessential AAA credit. Peek behind the curtain and America's financial house is most decidedly not in order. The U.S. retains its AAA rating by virtue of tradition, politics and complacency. Spreads on Greek debt are now in double digits. U.S. sovereign debt has many of the same risks. The main difference: the Greeks can't print Euros and we continue to print U.S. dollars, which, as we go to press, remains the world's reserve currency.]

TRAILBLAZING: EASTLAKE PROFESSIONAL CENTER, CHULA VISTA, CA Jumpstarting a Long-Stalled Office and Medical Condominium Project



Select Buildings at Eastlake



Eastlake Condo Project

In 2008, a San Diego-based developer received the certificates of occupancy for a ten-unit, 68,000 square foot, office condo project in the heart of Chula Vista's Eastlake commercial district. Unfortunately, the California real estate market was unraveling and the developer's projected sales prices for these "best-in-class" condos – more than \$250 per square foot – were no longer viable. Unable to sell units at market prices because of too much debt, the developer defaulted on its loan and the bank started down the road to foreclosure.

During the next three years, the lender and the borrower were embroiled in costly (is there another kind?) litigation. In 2009, the originating lender was seized by the FDIC and its assets – including the Eastlake loan – swallowed up by a healthy bank.

Fast forward to April, 2011. Pathfinder is the winning bidder at the property's foreclosure auction. The auction represents a rebirth for the five year-old project, with the condos given new life at a more realistic and market driven cost basis. Although the

project was largely complete, Pathfinder is investing in new landscaping, monument and building signage and enhanced windows and adding elevators to several of the buildings. Pathfinder also intends to add additional parking to the project.

Eastlake is listed with a leading national brokerage firm which is beginning to show the property to potential buyers. The units are listed from \$139 per square foot (a massive discount to the original listing prices). By resetting the cost basis, Pathfinder expects to jumpstart this stalled project in one of San Diego's fastest growing communities.

NOTABLES AND QUOTABLES

“I think this one is a warning shot...that should be loud and clear in Washington.”

- Pimco's Bill Gross on S&P's shift to a negative outlook on U.S. debt

“When something can't go on forever, it will stop.”

- Herbert Stein, economist, 1916-1999

“The National Association of Homebuilders' housing-market index fell to 16 in April, compared to a median forecast of 17. Earlier readings were 17 in March, 16 in February, January, December and November, 15 in October, 13 in September and August and 14 in July...While not as bad as the readings posted last summer, recent results remain very weak. Unfortunately for builders, there is a massive supply overhang of existing homes, which will present brutal competition to the new-home market in the foreseeable future. What's more, several of the more recent results from the home builders' housing-market survey are consistent with the notion that while last summer's readings somewhat overstated the gloom in the wake of the end of temporary tax-credit programs, conditions nonetheless remain very poor.”

- Joshua Shapiro, Maria Fiorini Ramirez, Inc.

“If the objectives of Quantitative Easing 2 (QE2) were to: a) raise interest rates; b) slow economic growth; c) encourage speculation; and d) eviscerate the standard of living of the average American family, then it has been enormously successful.”

- Dr. Lacy Hunt, Executive VP, Hoisington Investment Management (longtime Fed watcher)

“Credit expansion cannot increase the supply of real goods. It merely brings about a rearrangement. It diverts capital investment away from the course prescribed by the state of economic wealth and market conditions. It causes production to pursue paths which it would not follow unless the economy was to acquire an increase in material goods. As a result, the

upswing lacks a solid base. It is not a real prosperity. It is illusory prosperity. It did not develop from an increase in economic wealth (i.e. the accumulation of savings made available for productive investment). Rather, it arose because the credit expansion created the illusion of such an increase. Sooner or later, it must become apparent that this economic situation is built on sand.”

- Economist Ludwig Von Mises, 1881-1973

“What amazes me is how mostly everyone seems to suffer from short-term memory loss: What exactly was the inflation fallout from the last experience with soaring commodity prices? It was only three years ago and the masses still don’t see it for what it was then and is now – a shift in relative prices and a deflationary squeeze on real incomes.”

- David Rosenberg, Chief Economist and Strategist, Gluskin Sheff & Co.

“Current inflationary pressures are not merely transitory. They are instead a rational market response to signals sent from the Fed by its dogged pursuit of quantitative easing. Rational market investors tend to seek something that will hold its relative value, if, and when, the Great Inflation occurs. Gold and, for the ordinary investor, silver, are fairly obvious choices. The correct solution is for the Fed to stop QE now.”

- Walker Todd, Research Fellow, American Institute for Economic Research

“Looking back on the 2000s, our research indicates that the debt binge caused the economy to grow 8% to 10% too much during the decade. Unfortunately, the illusory economy still exists. This time, turbocharged deficit spending and massive debt accumulation is being perpetuated by state and local governments, not households...Wal-Mart, the world’s largest retailer, has suffered seven consecutive quarters of same-store sales declines, culminating in a 1.8% drop in the most recent quarter. Consumers have changed their buying habits by using less credit, relying more on their month-to-month cash and making smaller purchases per trip.”

- Jack Ablin, Harris Private Bank

Important Disclosures

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