Intelligent Acquisitions
Creative Structures
Sound Due Diligence
Timely Execution
Profitable Exit Strategies
Maximized Investor Returns

THE PREMIER SOURCE OF JOINT VENTURE EQUITY
Equity Market Opportunity

Aggregate Market Size, US Real Estate Market

Total Debt and Equity Market: $2.7 Trillion
As of 4th Qtr 2003

$0.91 trillion
Total Equity

$1.83 trillion
Total Debt

Source: The Roulac Group Capital Flows Database
Equity Market Opportunity

Equity Market Size, US Real Estate

Total Equity Market: $908 Billion

- Public Equity: 19% ($173 billion)
- Private Equity: 81% ($734 billion)

Source: The Roulac Group Capital Flows Database
Equity Market Opportunity

Private Equity Market, US Real Estate

Total Private Equity Market: $734 Billion

- Private Investors: 63%, $468 billion
- Pension Funds: 29%, $189 billion
- Foreign Investors: 7%, $47 billion
- Private Financial Institutions: 1%, $9 billion
- Life Insurers: 3%, $18 billion

Source: The Roulac Group Capital Flows Database
Equity Market Opportunity

Private Equity Capital Flows, US Real Estate, 4Q03

Total Private Equity Capital Flows 4Q03: $18.8 Billion

Source: The Roulac Group Capital Flows Database
Who We Are

Real Estate Financial Services Firm

Institutional Joint Venture Equity
Real Estate Fund

Joint Venture Equity Partner

Goal is to Invest $50MM-$75MM of Equity Annually
Who We Are

Hanover To Date

- Two Equity Funds Since 1999
  - Fund I: $57MM Invested
    37 Transactions
  - Fund II: $40MM Raised
    $27MM placed or committed as of 2/1/04
Operations Overview

Fund III Investment Strategy

• Project Size: $2 million - $50 million
• Construction/Acquisition Loan: 70% - 85%
• Required Project Equity Capital: $1 million - $10 million
• Hanover Investment: 75% - 100% of Equity
• Investment Time Frame: 12 - 60 months
• Project Strategy:
  – New Development: Build--Lease--Stabilize--Sell/Refinance
  – Value Added: Acquire--Rehab--Reposition--Sell/Refinance
• Project Returns:
  – Leverage Project Returns 20%+ IRR
Hanover Mezzanine Plus Program

• Hanover Selected as Advisor to Guggenheim Foundation

• Target Product: Stabilized Mezzanine Financing
  75%-90% LTC
  Partnership to Begin 3/1/04
  $50-$100MM targeted
Operations Overview

Structuring the Partnership

- **Sponsor/Hanover LLC**
  - Title Owner

- **Sponsor LLC**
  - Managing Member

- **Hanover LLC**
  - Member

- **How Hanover Invests:** Member of Single-Purpose LLC
- **Preferred Return:** 9% to 11%
- **Participation in Profits:** 40% to 60%
- **Major Provisions in LLC:**
  - Sponsor signs for any recourse obligations
  - Sponsor makes day-to-day decisions
  - Buy/Sell provision
Operations Overview

Underwriting Parameters

- **Site**
  - Location
  - Access
  - Demographic Profile/Trends
  - Zoning (No Entitlement Risk)

- **Project**
  - Design/Feasibility
  - Quality/Density/Potential
  - Mix/Uses

- **Market Feasibility**
  - Supply/Demand Trends
  - Income/Expense Analysis
  - Lease/Sale Comps
  - Financing Availability

- **Sponsor**
  - Background/Experience
  - Financial Strength
  - Staffing

- **Exit**
  - Viable liquid market for product type
  - Long term financing availability for product type
Operations Overview

What Makes the Difference?

- Investment Size
- New Development vs. Acquisition
- Sponsor Experience
  - Sponsor Financial Strength
  - Sponsor Operating Strength
- Location
  - Project
  - Sponsor
- Short-Term Hold vs. Long-Term Hold
- Existing Cash Flow vs. No Cash Flow
- Threshold Returns and Total Returns
- Preference Structure
  - Cumulative
  - Current
- Risk Profile of Capital Partner
- Approval and Closing Processes
## Operations Overview

### Product and Market Parameters

#### Product Types

- **Single Tenant NNN:**
  - Credit and Quasi-Credit

- **Multi-Family Apartments:**
  - 50-350 Units

- **Retail**
  - Shopping Centers: Grocery Anchored
  - Specialty: Pads/C-Stores

- **Industrial/Office:**
  - Class B and Greater
  - Value-Added
  - New Construction
  - For Sale Industrial

#### Market Parameters

- **Major Metropolitan Markets**
  - 500,000+ Population

- **Infill Sub-markets**
  - Mid-High Density
  - Redevelopment Opportunities

- **Proven Market**
  - Executed Product in Market
  - Market Liquidity for Product Type
Representative Transactions
$3.480MM Hanover Investment for Multi-Tenant Industrial Project
$3.480MM Hanover Investment for Multi-Tenant Industrial Project

Opportunity
- Acquisition of a 158,000 sf multi-tenant industrial complex consisting of eleven buildings, built in 1976
- Project is located in Tustin, CA, strong industrial in-fill market
- 100% leased at acquisition; 120 tenants
- Strong, regional, fully integrated real estate organization with substantial experience in developing/repositioning assets
- Value creation through placement of month-to-month tenants on long-term leases, roll expiring tenants to market and complete minor rehab/deferred maintenance improvements

Challenges
- High price per foot on acquisition
- Econ cap rate of 9.00%
- High cost/sf exit based on comparables
$3.480MM Hanover Investment for Multi-Tenant Industrial Project

**Transaction Structure**

- **Total Project Costs:** $18,300,000 ($116/sf)
- **Senior Debt:** $13,950,000 - 76%
- **Equity Required:** $4,350,000
- **Hanover Contribution:** 80% of Equity
- **Stabilized NOI:** $1,831,000 (exit year)
- **Return on Costs:** 10.00% (NOI/Total Costs)
- **Exit Cap:** 8.75%
- **Spread (ROC-Exit Cap):** 1.25%
- **Value:** $20,927,000 ($133/sf)
- **Structure:** Tier Structured
- **Investment Timeframe:** 36 months
$1,031,250 Hanover Investment for Multi-Tenant Retail Project
$1,031,250 Hanover Investment for Multi-Tenant Retail Project

Opportunity

- Acquisition of a 77,000 sf multi-tenant retail center in Colorado Springs, CO
- 80% occupied at close; 1.87 DCR at close, excellent cash flow
- Anchor dark
- Strong, regional sponsor with experience in repositioning retail assets
- Value creation through releasing of anchor space and rolling existing tenants to market

Challenges

- Secondary market
- Finding right tenant mix
$1,031,250 Hanover Investment for Multi-Tenant Retail Project

Transaction Structure

- **Total Project Costs:** $3,975,000 ($51/sf)
- **Senior Debt:** $2,600,000 - 76%
- **Equity Required:** $1,375,000
- **Hanover Contribution:** 75% of Equity
- **Stabilized NOI:** $475,816
- **Return on Costs:** 12.00% (NOI/Total Costs)
- **Exit Cap:** 10.50%
- **Spread (ROC-Exit Cap):** 1.50%
- **Value:** $4,808,000 ($62/sf)
- **Structure:** 10% pref; 18% lookback; 50/50
- **Investment Timeframe:** 36 months
$2.43MM Hanover Investment for Multifamily Project
$2.43MM Hanover Investment for Multifamily Project

Opportunity

- Acquisition of a 187-unit apartment project in Santa Ana, CA with opportunity to renovate units and common areas and increase rents to market rates
- Major international publicly held real estate company; ninth transaction with sponsor
- Strong urban residential in-fill location
- Value creation through rehab and resale

Challenges

- Value Opportunity – Relatively low spread of 0.93% initially (i.e., difference between economic and exit cap rate)
- Exit – Existing FNMA debt structure requires additional planning for proper exit capital structure
$2.43MM Hanover Investment for Multifamily Project

Transaction Structure

- **Total Project Costs:** $15,578,000 ($83,305/unit)
- **Senior Debt:** $12,540,000 – 80%
- **Equity Required:** $3,038,000
- **Hanover Contribution:** 80% of Equity
- **Economic NOI:** $1,391,637
- **Return on Costs:** 8.93% (NOI/Total Costs)
- **Exit Cap:** 8.00%
- **Spread (ROC-Exit Cap):** 0.93%
- **Value:** $18,470,000 ($98,800/unit)
- **Structure:** 10% pref. + 50% net profits
- **Investment Timeframe:** 36 months
$1.8MM Hanover Investment for Industrial Development
$1.8MM Hanover Investment for Industrial Development

Opportunity
- Development of 101,000 sf, 12-unit industrial project – buildings for sale (6M to 12M sf)
- Local sponsor with extensive industrial development experience
- Strong in-fill location with freeway visibility
- Value creation through sale of buildings to owner/users

Challenges
- High price per square foot – not previously achieved in sub-market
- Need for speed!! Transaction had to close in 21 days
$1.8MM Hanover Investment for Industrial Development

Transaction Structure

- Total Project Costs: $11,275,000 ($111/sf)
- Senior Debt: $8,989,000 – 80%
- Equity Required: $2,286,000
- Hanover Contribution: 80% of Equity
- Economic NOI: $1,383,000
- Return on Costs: 11.2% (NOI/Total Costs)
- Exit Cap: 9.50%
- Spread (ROC-Exit Cap): 1.72%
- Sale Price/sf – Margin %: $138/sf – 22%
- Structure: 10% pref. + 50% net profits
- Investment Timeframe: 24 months
$2.352MM Hanover Investment for Retail Project
$2.352MM Hanover Investment for Retail Project

Opportunity
- Development of a 3-building, 81,000 sf multi-tenant retail center located in San Francisco Bay Area suburb
- Excellent freeway visibility adjacent to Wal-Mart and 25 screen multiplex theater
- Mid-sized developer who has executed on similar business plans in Northern California
- Value creation through development and sale

Challenges
- Project 33% leased at Hanover’s commitment
$2.352MM Hanover Investment for Retail Project

Transaction Structure

- **Total Project Costs:** $13,946,000 ($172/sf)
- **Senior Debt:** $11,454,000 – 80%
- **Equity Required:** $2,492,000
- **Hanover Contribution:** 95% of Equity
- **Stabilized NOI:** $1,457,349
- **Return on Costs:** 10.45% (NOI/Total Costs)
- **Exit Cap:** 8.70%
- **Spread (ROC-Exit Cap):** 1.75%
- **Value:** $16,751,000 ($207/sf)
- **Structure:** 10% pref. + 50% of net profits
- **Investment Timeframe:** 32 months