



HANOVER
Financial Company

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

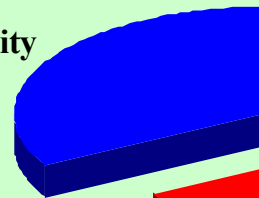


Aggregate Market Size, US Real Estate Market

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

\$0.91 trillion

Total Equity



\$1.83 trillion

Total Debt

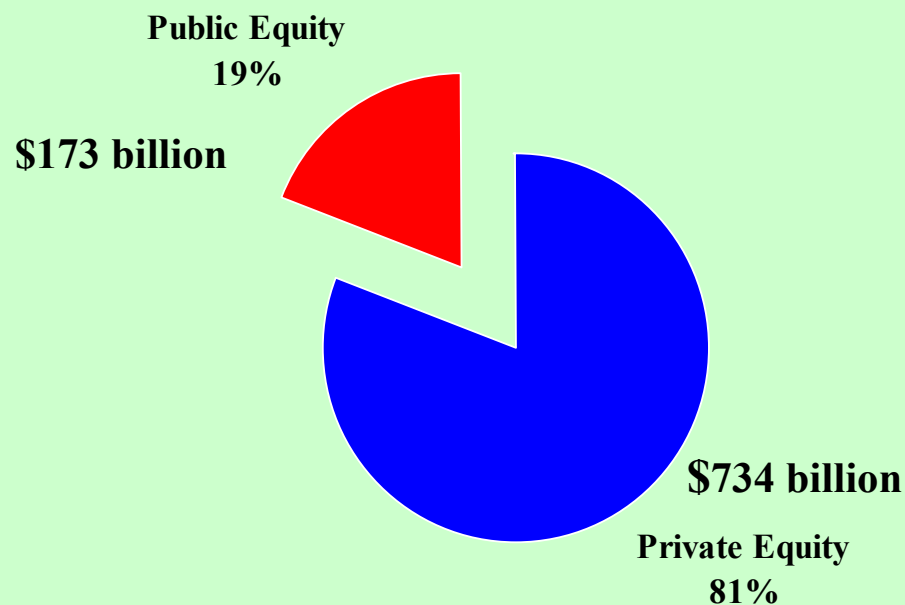
Source: The Roulac Group Capital Flows Database



Equity Market Opportunity

Equity Market Size, US Real Estate

Total Equity Market: \$908 Billion



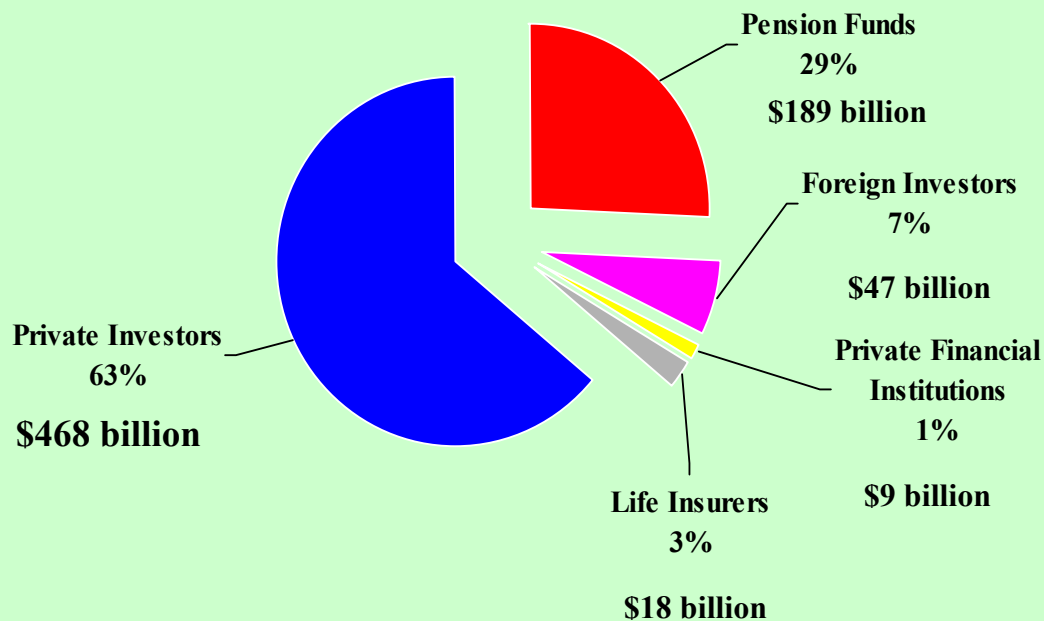
Source: The Roulac Group Capital Flows Database



Equity Market Opportunity

Private Equity Market, US Real Estate

Total Private Equity Market: \$734 Billion



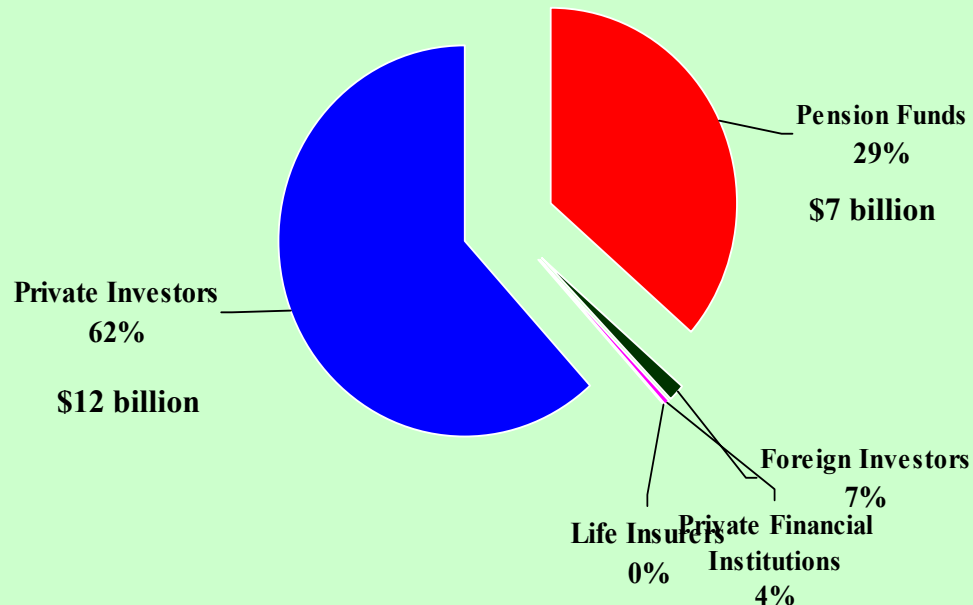
Source: The Roulac Group Capital Flows Database



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

Operations Overview



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



- 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

■ Exit

- Viable liquid market for product type
- Long term financing availability for product type

■ Market Feasibility

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

■ Sponsor

- Background/Experience
- Financial Strength
- Staffing

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

Questions/Notes

