

**Investors:**

A belated Happy New Year to all of you. We hope this letter finds you faring well and pursuing the challenges of this year with a sense of realistic optimism. That is how we are trying to approach things at Corridor, as we watch the economy deteriorate and digest reams of negative news, while trying to come to work with enthusiasm over the belief that from this wreckage will ultimately emerge one of the great real estate investment opportunities of modern times.

While we sincerely hope that 2009 brings a better overall climate than 2008 and the inklings of hope that prosperous times will again return, the reality of our nation's current economic situation remains bleak. As I write this letter, the new President is admirably trying to change the tone of partisanship in Washington, DC while trying to force feed the nation one of the most challenging pieces of legislation that congress has ever been asked to approve, plus a save-the-banks measure that nobody seems to really understand, and a budget that is both astonishingly bold and quite sobering from a tax-the-wealthy perspective. The legislation has (and should have) passed, as inaction was primary in leading the nation to 25% unemployment before Roosevelt stopped the bleeding in 1933 (even though we did not actually recover for about another 10 years, unemployment slowly went down). That said, we believe that this expenditure bill is unlikely to propel the economy forward in any meaningful way, or to be the last of its kind. It will also ultimately lead to a host of other problems (inflation, dollar weakness, huge deficits, unwieldy national debt). While some of its measures will have a marginal impact and should slow the pace of unemployment increase, it will likely take much more than another \$800 billion to fix the complicated amalgam of problems that ails our economy, impedes our GDP recovery, and pressures the value of our owned assets. Unfortunately, signs of a catalyst for any kind of fundamental turnaround have yet to reveal themselves and the survivalist posture of our national consumer and business psyche will likely remain in place for the foreseeable future. If people don't spend, banks don't lend, businesses don't make purchases, and investors don't put out enough money to cushion falling asset values, the economy will continue deflating for a long time.

To say the least, the last few months have been economically miserable for almost everyone. The destruction of asset values has sucked massive amounts of wealth, spending, and investment potential from of the economy. The Madoff ponzi scheme, which continues to reverberate throughout the financial system, sucked trust and confidence from the system. And the rapid increase in unemployment and simultaneous halting of discretionary spending sucked whatever was left of the confidence consumers seemed to have that our system would be headed for a turnaround in the current year. Now, the hunkering down and defensive perspective that began in the second half of 2008 is evolving into an acceptance that nobody seems to have any idea as to when these problems will abate. And so finally, we are all bracing for a protracted period of pain and belt-tightening, of personal and corporate deleveraging, and of cautious financial management.

Our own crystal ball, while not revealing much, does shed some light that we want to share with you. First, we believe this downturn will end, although we clearly don't know when. Unemployment will continue to rise in the short term, and we still believe that 10-11% reported unemployment is a realistic ending point. Although 10-11% is not in and of itself depressionary, the rate of "underemployed," those who want full-time jobs and at best have found part-time work at reduced compensation levels, is and will continue to be

about double the reported levels. Retail sales will deteriorate further, housing prices will drop further, and expenditures will be made with increasing reluctance. Cash and deleveraging will continue to reign supreme among both consumers and businesses, and investments will be made only where market dislocation is so significant that assets can be purchased at prices low enough as to be “no-brainers” relative to the relationship between risk and return. Examples of such dislocation do exist today, and thus foreclosed homes, discounted loans, and certain kinds of asset-backed securities are finding willing buyers. All of this is part of a natural economic cycle, which will run its course, albeit less rapidly than we are used to. Our internal stance is that the U.S. will neither repeat the mistakes of the Hoover administration in the early 1930s, nor those of Japan during its “wasted decade,” and we have the resources and the leadership to avoid these outcomes. Our politicians and economists, for all their partisan bickering and posturing, have learned from the past. Although they will make new mistakes, the inaction of past extreme down-cycles will not be repeated, and our entrepreneurial economy will revive.

The real good news for the long-term is that our nation’s population continues to grow organically, and that we are an extraordinarily resilient, hard-working, entrepreneurial nation with a knack for creating value and wealth, and for finding ways to create opportunity under adverse conditions. Additionally, there remains a great deal of cash on the sidelines, with more being created through asset sales every day, while balance sheets are being cleansed and prepped for the future. Lastly, home prices are slowly gravitating back towards the point where they are affordable in comparison to rental rates, which should ultimately result in home price and sales velocity stabilization. These are very strong attributes for an economy seeking to turn itself around. The idle cash is eagerly looking for bargains, and this cash has already begun to be deployed into assets with attractive risk/reward characteristics. Although much of this investment today is in “distressed” debt and securities, as well as assets with very strong yield and capital protection characteristics, the fact that money is being deployed reflects a growing view that reasonable levels of risk are now attainable and that stashing cash under a mattress is simply an unacceptable strategy for financial management. This, we believe, is the first baby step towards halting asset value declines, and ultimately a broader recovery in asset values, although it will take years and much distress before the top of the capital stack (invested equity) recovers its lost ground. The bottom line, though, is that the flow of capital has begun again, money still needs to find a home, and investors are selectively participating. This will continue as asset values are re-priced across the spectrum of available options, which is cause for some further restrained optimism.

One aspect of the financial meltdown that has received insufficient attention is the state of the commercial real estate market. This is because commercial real estate has appeared to be in reasonable shape, with only about 1% of all loans in delinquency, with limited defaults, and few foreclosures. However, the reality is that difficulties are brewing across all commercial asset classes, and with limited financing available to support sales or refinancing, a big storm is coming. Struggling retailers and corporations are having trouble making rent payments, and in some cases going out of business, thus inhibiting the ability of office and retail properties to weather the downturn. Condo developers are sitting on excessive inventory that must be marked down and that they hope can be sold before the bank steps in and takes over. Multi-family owners are dealing with rent pressure, with the added inventory created by excessive condos transformed into rentals, and with growing payment delinquencies. Hotel and resort occupancy is being crippled in many markets by reduced business and personal travel. Industrial properties, warehouses, and storage facilities are similarly

impacted by the reluctance or inability of all but the most well-financed companies (and individuals) to invest or spend their capital. At the same time, relative asset values are also in decline, and we are seeing cap rate increases create wholesale degradation in values across every asset class in the marketplace, including student housing. This means that in 2009 and beyond, the rate of default and distress in commercial real estate is going to increase significantly, which will create added pressure on the already chaotic and confused real estate capital markets.

From an overall student housing perspective, continued strong enrollment trends, tight state budgets, decreasing rates of new development, and an under-supply of on-campus properties are a saving grace for occupancy rates among student housing property owners. Thus, we believe that a realistic, competitive lease-up strategy will pay off. While that is the good news, many markets are already overbuilt, utility price increases have kicked in and will not reverse (unless a property is powered by oil), parents are feeling increasingly conscious of rent levels, and student loans are harder to obtain. As a result, prospective tenants are becoming more effective in creating competition among landlords for all but the best-located, best-amenitized assets in the least economically affected markets, with the result that rents are under pressure and concessions much more widespread. These factors create significant downward pressure on NOI, which we are seeing at all of our owned and managed properties, as well as those owned or managed by our competitors. Everyone in the student housing sector is feeling these economic effects, and as an industry we are working to make the best of a difficult situation, sharing best practices and working hard to control those aspects of management over which we can positively exert our influence.

The difficult state of the commercial markets and its prospects for the foreseeable future levy a burden on every property we purchased from 2006-2008. From our perspective, this means that we take a strategy of selective survivalism into every decision we make on our properties. We leave no stone unturned in our effort to get our properties leased up, despite the painful impact that reducing or maintaining rents can have on the NOI that we expected to be delivering at this point. Second, it means that we analyze our expenses and seek to reduce where possible, and to be more efficient where cost-cutting does not easily reveal itself (we regularly visit all our properties and work with the on-site team to devise creative plans for better expense management). Third, it means that we are as cautious as possible when making capital expense decisions, but with the understanding that we do not allow our assets to degrade in the process. And last, it means that we recognize the importance of cash to our being able to withstand the economic uncertainties and will seek (if at all possible) to maintain protective cash balances at all our properties, even if that requires us to reduce or even suspend preferred returns. This is not our desired course of action, but it is prudent and may give us the best chance for long-term recovery.

While the state of commercial real estate is not good for most anybody's recent acquisitions, it bodes well for assets that can be bought at prices that are improving by the day. Already, attractive opportunities are surfacing out of the prospects for widespread problems, most notably in discounted loan dispositions and distressed sales. Opportunities to buy troubled assets that can be turned around with better management practices and repositioning strategies are also increasing. Over the course of the next year, we foresee a growing inventory of challenged situations, continued cap rate expansion, more realistic underwriting assumptions on the parts of owners, and a greater willingness on the part of all selling entities to provide reasonable financing to

fill in the gaps left by the defunct CMBS markets and struggling banks. This is exciting news for companies like ours that have good track records, strong asset management skills, and access to capital, all of which benefitted our efforts before prices rose to excessive levels over the past few years. However, we will continue to be patient, vigilant, and risk-averse as we filter through the increasing quantity of deals that we are seeing. We are looking only for deals that provide strong capital preservation, a high probability of attractive short-term yields, and under conservative scenarios over 5-7 years can provide liquidity and annualized capital growth rates exceeding 15%. These situations must also provide for much greater capital appreciation should turnaround efforts succeed, and markets become more accommodating to cap rate compression and refinancing.