During 2008 the credit crisis in America matured. The problem was one created by failure to act, rather than failure to recognize the problem. Many recognized the march of madness and the systemic risk contained in the financial system. The Federal Reserve Bank of New York in their economic policy review of November of 2007 clearly identified the problem as the broadening range of financial products and the increased volatility in financial markets. Yet no one took a step towards a solution and instead of regulation, both greed and free market practices which augured the greed permitted the bubble to grow.

The credit default swap market and derivatives market grew to immense proportions. The credit default swaps exceeded $41.9 trillion dollars and at latest estimates the overall impact of credit default swaps and derivatives now exceeds $592 trillion dollars. Although there is a theoretical legitimate use of such instruments trading them basically as pure speculation and gambling has become the norm. The financial knot created by these contracts will remain the blockage in the system to recovery until it is untied. These contracts were essentially insurance that was being written without capital reserves. Insurance companies are highly regulated and can only write a policy that they can theoretically pay based on an actuarial assessment of what the real risk of loss is. Too much insurance has been written at way too cheap of a cost and with way too little capital to back it up by working outside the regulatory framework of an insurance company and instead writing policies under another name without capital to back these bets.

The bailout of AIG is solely based upon their exposure to the credit default swap market. Their core insurance business was never in trouble and never run poorly. It was all of the insurance being written outside of the insurance framework in the form of the credit default swaps that brought the company to its knees. Warren Buffet's partner Charles Munger has stated that he would eliminate 100% of all credit default swap contracts as the best solution to kick starting a recovery in the financial markets. In principal I agree. People that played in this market are responsible for their own losses. If you buy insurance on your house from a company you know doesn't have capital to pay you, when your house burns down should you be responsible and bear the loss; or should you ask the government to bear the loss.

Obviously there is a missing element here, regulation. If you don't know who you're buying insurance from, a company with no assets to back it up, there seems to be something inherently unfair. Therefore regulation plays a role in this through disclosure. However people that were playing in these markets were not ignorant to the risks. Most in fact clearly understood them and therefore should not be permitted to gain based upon these gambles. At most purchasers of the credit default swap should receive is a refund of their premium that they paid rather than to collect on betting against America.

We all nevertheless bear a role in the creation of this problem. Instant gratification without the ability to pay for it when the credit card bill came in ramped up the size of the liquidity bubble. The attempt by government to avoid a painful solution to this through liquidity injection and bailout programs in order to sustain asset prices will only prolong this crisis.

Shareholders and bondholders who benefited from the gains during the good times must take the loss that the financial institutions have created through their gambling as failure to do so will only ultimately weaken the economy further through diversion of resources that might be placed into investments in real growth instead of financial institutions being propped up from collapse.

The government's effort to prop up the banks maybe should've been directed more to the healthy banks rather than all of the weak ones so as to encourage new loans rather than being used to cover losses on old ones. One of the problems may be that the banks have grown too large and control too much influence with government and that more banks and smaller banks who are using prudent judgment, know their customers and underwrite their credit risks would result in a stronger America rather than a weaker one.

Saving America's banks alone will not save the economy. We need to attack the root of the problem not just prop up the financial system alone. Perhaps the investment being made as an example in the car companies if it is really tailored with a rebirth of that industry with more competitive and fuel efficient automobiles will provide more benefit to the economy than just throwing money at the financial system alone. Thomas Jefferson taught us in 1802 "I believe that banking institutions are more dangerous to our liberties than standing armies. If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks and corporations that will grow up around the banks will deprive the people of all property until their children wake up homeless on the continent their father's conquered."

The question becomes where we go from here and how long will all of this last. The answer in short is that this too shall pass but there is a lot to digest and analyze in arriving at more exact conclusions. I think it is reasonably safe to say based on what has taken place so far we are looking at a long road to recovery. The emphasis on bank bailout to date rather than investment in infrastructure which will create a sustainable boom to growth in the economy will at least in part turn out to be a waste of taxpayer money.

The new administration has boldly taken on many failing elements of infrastructure in the appropriations bill. These steps are highly more likely to result in a turn around and long term growth for the economy. The question will become whether there's adequate political capital for this direction to continue and how the political forces that are always adding earmarks to appropriation bills can be controlled.

We first have to admit our mistakes and recognize that asset values that have been puffed up through easy credit need to be brought back down to reasonable market values which are sustainable based on their utility. This will obviously result in significant decline in overall market values in America. We need address the root of the problem by adjusting mortgage interest rates and lengths of amortization and other means of keeping people in their homes, rather than having the foreclosure process worsen the problem by placing people into a homeless situation where they can no longer hold a job and feed their families which ultimately will certainly worsen the problem in the real economy rather than in the financial economy alone.

The government must adopt a public policy with a longer range and bigger picture plan to solve the latent problems which are dragging down the economy.

These include a solution to the healthcare crisis which is geared towards reducing costs and providing better services rather than only rewarding those who are managing the system.

We must also address the energy crisis through energy efficiency, reduced consumption of greenhouse gas emitting fuels, go to a more sustainable form of energy where we can move the energy to where it is needed and eliminate waste. It is essential we bite the bullet and provide an incentive to use and subsidize through tax benefits energy produced by wind and solar power and other similar forms to kick the petroleum habit. Although it will be harder to sell to the public we need to raise taxes on petroleum to keep the prices of gas at $4.00 in order for this plan to succeed.

We also need to encourage infrastructure in the form of nuclear energy expansion and to do so on some model A Ford cookie cutter program.

In order to obtain the funds for that long term investment we're going to need to change our policies at a government level where individual corporations don't write our tax code through their lobbyist and sustain benefits where they're no longer paying their fare share. Everyone doing business in America should be making a contribution and there should not be an encouragement to take your capital offshore so you obtain a tax benefit. American corporations should pay taxes based upon their worldwide income. Non US corporations should pay based on the money then make doing business in America. Tax policy should tailor benefits to those corporations that invest in the policy of America through investment tax credit and accelerated depreciation and other benefits for the investment needed to create the new sustainable energy sources and grid.

Our immigration policy has lost its way. This is a country that was built on immigration providing a constant source of new and industrious people to fulfill the needs of the growth engine of America. Instead now we export our jobs and bar entry to those that would help us succeed in that growth.

We also need to go back to educating our own people and the policies of recent years with "No Child Left Behind" have been a catastrophe. We need to pay teachers more, utilize the school system better and provide care to younger students and students who are the offspring of working parents to provide an opportunity by investing in their future for the future of America to prosper.

We've also left broadband and computer technology solely in the hands of private companies. Although there is a lot of incentive for private enterprise to work on this profitable arena it is in our national interest to gain back our proper place as leaders in technology by establishing government policy and incentives. Obama has prioritized creating a national health record system which could be the catalyst for this.

These policies are not just to feel good but will result in massive savings to America through improved healthcare, increased productivity, reduced costs of energy, less waste, elimination of shortage, and reductions of our balance of payments deficits. They also will provide us new political strength in dealing with our enemies.

One thing is certain about the outcome of all of this. You can't pump all of this money into the economy from TARP funds and TALF funds and other forms of economic stimulation without having more money at the end of the day chasing the same assets and basic economics will tell you that means we're going to have inflation and probably a lot of it. It is doubtful that productivity will improve at such a pace to counteract this outcome.

I recently read on a Southwest Airlines flight in their magazine that if John D. Rockefeller were alive today his estimated $900 million dollars in worth at the time of his death in 1937 would be worth the equivalent of $190 billion dollars today and make Bill Gates fortune of $58 billion look like chump change. Any quick figuring will tell you that if inflation has only been 2 to 4% per year since 1937 that there is no way that $900 million would equal $190 billion dollars today. Therefore it's pretty safe to conclude that the government has understated the inflation.

There is no doubt that there will be more. Perhaps inflation will be used as a government tool in order to overcome part of the problems that have been politically unpopular to solve such as recasting entitlement programs such as social security. These entitlement programs are in essence off the balance sheet debt that far dwarfed the real national debt and also need to be dealt with in the whole scheme of things. There aren't any good formulas. You either have to reduce the amount of the payments, increase the age when people are entitled to receive them or recalculate the basis of payments. None of this is going to make our aging population very happy and therefore it is still our position that cash flow will become ever more important as people look for substitute income for the money that they're receiving from entitlement programs today.

Commercial real estate will prosper as a result of being able to generate that cash flow and steady checks on a monthly basis. Based upon supply and demand and inflation, the rates of return will have to be bid down from greater money being allocated to these investments. We expect our portfolio to prosper. In the short term we also expect during these tuff times to be able to buy additional properties during the years of crisis at bargain rates. Over a longer horizon this will ultimately translate into significant rates of return from the cash flow generated by increasing rents in our well managed properties.

The opportunities to invest in real estate and many other investment vehicles will be great during these next few years for the contrarian investor who runs apart from the crowd. We have made brutally hard offers on a number of properties already but are still looking for the correct jewels to meet our criteria.

It will nevertheless remain tough times and we at Commodore have also felt the pain of some of our Tenants who are struggling to make a go of it and have had to reduce rents and provide other relief so as to keep our Tenants healthy and stable. Even with our conservative and defensive strategy we've lost a few Tenants during 2008 and early 2009 to the economic crisis and its highly likely we'll lose a few more.

One hundred and thirty million square feet of big box space has gone dark in the U.S. since the start of the recession according to a report by Cushman and Wakefield, this is equivalent to five square miles of space or roughly the area of midtown Manhattan. Nevertheless it's clear that although our unemployment rate is reaching ever closer to 9% that still translates to 91% of the people are still out there every day doing their job and making America healthier and better. Although they may pull back on their spending habits for fear of losing their job or in sympathy with the news articles they read every day, they're still earning a living and as time goes by the old car will need to be replaced with a new one and other needs will also have to be fulfilled.

Concerning our properties we report as follows:

BRICKELL: We have one remaining property in the Brickell area and have ramped up our effort to take this property in a new direction, redeveloping it into a higher and better use for a longer term hold. We see the market weak for the immediate future with all of the new construction, yet in the long run, Brickell will be a jewel in the United States and we are looking for additional investment opportunities in the Brickell area today.

BIRD BAY PLAZA: We have a plan of upgrades for the Bird Bay Plaza now that we have bought out our partners who were hesitant to reinvest in the property. The property will receive a new roof and other major upgrades to its handicap ramps, parking lot, landscaping and the like. We have opened a leasing office at this property and are now addressing head on the vacancy issue and plan to vanilla box various spaces in order to make them more rentable. We believe the change in philosophy at Bird Bay to incorporate the needed upgrades will make the property more competitive in the local market.

SARASOTA CROSSINGS: This property is receiving the big change for 2009. We have demolished the east wing of Sarasota Crossings where the movie theater and a group of small shop tenants were located. We have under construction a new 51,000 square foot addition to the property which will be anchored by a 21,000 square foot Office Depot and a 30,000 square foot HH Gregg Store, both listed on the New York Stock Exchange. The completion of these stores will add a new vibrancy to the east wing of the Sarasota Crossings. We expect to complete some other re-tenanting as a result of the synergy created by the new anchor tenants. There is always some pain getting to the gain but there is little doubt that the Sarasota Crossings will enjoy a whole new vibrancy and greater income stream by the year 2010.

Another advantage of redevelopment in these tough times is we were able to secure our construction costs significantly under our original budget, leaving future funds from the money that we borrowed to engage in other opportunities at this property. David A. Puyanic has been the shepherd of this project and done a remarkable job.

SARASOTA COMMONS: Because of our success at the Sarasota Crossings in obtaining a low cost to our planned improvements, we are looking at the opportunity in the current market of developing that new 20,000 square foot north wing of this property. We are seeking for a couple of good tenants to kick off the project and as soon as we have them we expect to move forward with the 20,000 square foot addition to this property. The property has been performing well which has allowed us to rebuild our cash reserves after the cost of the remodel a few years ago. Sadly we lost Washington Mutual as a tenant to the banking crisis. Our mortgage matures at this property in August of 2014. At that time we will be free of debt. Many of our other properties will have mortgages maturing over the years following 2014 and therefore our investor's cash flow will enjoy significant increases as these final mortgage payment events occur.

TAVERNIER TOWN SHOPPING CENTER: Tavernier Towne has matured into a rock of stability in our portfolio, this in spite of the fact that the Keys has suffered during the recession as much as any other part of the country. There has been some decline in population and the fact that real estate prices were greatly bid up during recent years always means that the higher the increase and the bigger the bubble the louder the pop and therefore the economy and tourism suffers. The property nevertheless has grown in stature among other properties in the Keys and we consider it to be the number one retail location in the upper Keys. We have been working with the County government on plans that would permit us to further develop the property and this of course is a very slow process in the very regulated Florida Keys.

TRAFALGAR SQUARE: Winn-Dixie relocated their entrance to the store and made a further commitment to their long term future at Trafalgar Square, bringing the store entrance closer to an easier access to the field of parking. We expect this will increase customer satisfaction. The property is now in impeccable condition and remains well rented with only one vacancy. We welcome some of our new Tenants including the Triple A Beauty Supply and Latin Beauty Academy.

MARIETTA SQUARE: Food Lion recently exercised a five year option in this property and their sales continue to improve. The economy in Jacksonville also is suffering. It is a blue collar area and although we've retained 100% occupancy at this time, we have had some tenant turnover during the last year. We continue to look for new tenant opportunities in order to expand on our available land and further enhance Marietta Square. There are plans to improve Beaver Street (Highway 90) in front of the property expanding it to a four lane road, which we hope will get started during 2010. The Interstate 10 exchange is also being relocated to nearby Hammond Street and a whole new exchange that will serve this property developed at a cost in excess of $110 million dollars. These improvements indicate that there is growth and future demand for West Jacksonville which should benefit our property.

HARBOR PLAZA: We continue to make upgrades to Harbor Plaza although our vision for what was needed at this property is now nearly fulfilled. Even Key Biscayne has been hit by the recession and therefore some of the tenants are having a harder time at this property than in the past. We will be making changes to the parking lot and the area behind the property to create some additional parking. We also expect some new tenants at the property during 2009 although no new deal has been signed at this time.

INSURANCE: Our Captive Insurance Company has yet to pay a claim and after four years of premiums has now developed sufficient cash reserves to be able to deal with almost any possible claim that we can envision. This too will add another level of stability since the insurance market remains volatile. The cost of insurance has decreased significantly over the last year. Going forward due to the recession, the current economic crisis, insurance company losses, recent changes in Florida law and global warming, I think that we can rest assured that there will be new volatility in the commercial insurance market in coming years.

COMMODORE PLAZA: Our Key Biscayne office building is in impeccable condition with great tenants and provides a wonderful home for Commodore Realty and our staff growing into our facility. We expect the Village of Key Biscayne to make improvements in the streetscape in front of the property starting sometime in 2009 which will result in additional parking spaces, lighting and landscaping. This will enhance the entire neighborhood.

COMMODORE REALTY INC.: We welcome Nicky Almeida to our accounting team. We thank Pepe Rivero, Christina Carrasco, Alfredo Fraga, Demitri Vorona and the rest of our Property Management team who have under David Puyanic's supervision done a great job at improving our properties while at the same time cutting our operating costs during 2008. Leiani Prieto has joined our team as David's executive assistant and is doing a great job.

We've also ramped up our leasing and acquisitions team in order to seek out opportunities in the current real estate market and to get a head up on our competitors as far as leasing our vacancies. We thank Nicole Christodoulou for the effort that she's put into leasing and her great deals with Office Depot and HH Gregg. We welcome aboard Ryan McDowell, Stephen Heymann, Robert Guzman, Michael Narula and Jerry Souci who make up the new team. We are very excited about the prospects of having these seasoned professionals focused on our business plan for the coming years.

REPORT FROM THE BRIDGE

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Sarasota Crossings Shopping Center

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