

Although the 2008 Great Recession is over per the government's statistics, economic growth and employment gains remain anemic. There remains almost 13 million unemployed, with another 6 million who aren't being counted in the government statistics because they have given up trying to get a job. Not much has changed since my last Report from the Bridge.

The recession ended when the employed regained enough optimism to buy new cars, go to the stores and eat out in restaurants – but for the change in optimism little else has improved.

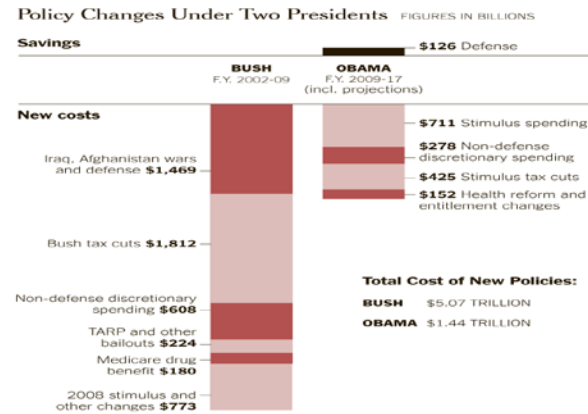
The financial system in the United States today still has more systemic risk than before the 2008 recession. The big difference is the lender of last resort; the United States is more at risk than ever after bailing out the banks and the car companies, and going so deeply in debt so fast that at the current pace the country will be at an unsustainable debt level before the end of the decade.

All of this comes at a time when the entitlement expenditures (Social Security and Medicare) will skyrocket to a peak expenditure as the post war baby boomers retire and face declining health, Social Security will be broke by 2033. It is the perfect storm. Look at the New York Times' graph below showing the budget projection and reality and it is easy to see we have no time to loose in dealing with the problem.

The failure of the two political parties to compromise in the best interest of the country appears to be so unyielding that if continued it will likely lead to the inevitable decline of the United States. As the politicians vote the agenda of their biggest campaign donors, the policy and the law will remain stalemated with each party protecting their previous victories and attempting to further the agenda of their biggest contributors.

This is not new, but I believe the extent to which the political parties are prepared to stalemate any progress is new and that it constitutes a structural change in our Democracy.

The second graph shows how the policy changes of Bush and Obama made all that money disappear in just a few short years.



Meanwhile the debt just continues to increase. The total national debt exceeds \$15.6 trillion dollars. Solving the national debt crisis requires either huge cuts in spending, huge tax increases or monetizing the debt which is printing money and that translates to inflating our way out of debt. In all likelihood a combination of solutions will be required. Inflating our way out of debt will change the position of the United States to the rest of the world forever. Since we are the only country that has not inflated our way out of debt up until now we have been privileged to provide the world's reserve currency. A loss of confidence in the dollar could change that privilege forever. The wild card is that much of the rest of the world seems to be in an equally vulnerable condition to that of the United States.

The likelihood of raising taxes in the current political environment is nonexistent, while our divided politicians instead offer more tax cuts to win reelection. No one really wants to pay more taxes, but you can't have it all ways. For the most part our lawmakers have been cutting taxes since the Kennedy era when the highest marginal tax rate was cut from 91% to 63%.

A look back over history shows that cutting taxes only spurs growth when there are outside economic circumstances which are the underlying cause for greater Gross Domestic Product and transactional growth. An example would be a cut in the capital gains tax in 1997 to 20% during the Clinton administration which coincided with the giddy days of the tech and dot.com boom resulting in significant increases in capital gains taxes collected.

Most of the other tax cutting did not have the same desired result. The argument that tax cuts alone spur the economy has simply not worked.

In the last Report from the Bridge we talked about the subject of changing the country's moral commitment to the long term. I haven't heard any of our Republican candidates discussing the long term –

only tax cuts and more domestic oil drilling with less government regulations.

In addition, the word “change” was used a lot in the Obama campaign for his first election. Although his intentions might have been good his administration has been sadly ineffective so far.

In the final analysis it appears that inflation will be the answer to the debt crisis by default, and therefore hard assets such as commercial real estate should fare well.

There is still too much stimulus money allowing the banks to hold troubled assets and therefore the market has not cleansed itself. The banks are also using the strategy if they hold the assets long enough inflation will cut their losses. The low cost of financing is propping up asset values. The cleansing that one would have anticipated in the market is not taking place and there are many loans on the books of banks that are under water that are coming up for renewal over the next few years, but so far because of the zero interest rate Fed policy, prices have been supported by cheap credit and properties are being sold at prices that it seems impossible for them to ever pay for themselves in the event of the inevitable interest rate increases.

Our properties continue to operate profitably and we have been more successful in our leasing efforts in 2011, although at reduced rents and competitive deals to retain and gain new tenants. We have for the most part been able to maintain our cash flow distributions to partners with some adjustments down and some up, based on the operating results at each of the properties.

KEY BISCAYNE GATEWAY

We were fortunate to acquire property in the gateway entry block of Key Biscayne during 2011. This high profile location will be the subject of redevelopment after housing for many years restaurants and night clubs. We are pleased to announce that we are in the process of acquiring the adjoining parcel of property which will also become a part of the holdings of Key Biscayne Gateway Partners, Ltd. We are also in negotiations with high profile National tenants to occupy this outstanding property.



KEY BISCAYNE ENTRY BLOCK

HARBOR PLAZA SHOPPING CENTER

Harbor Plaza adjoins with the Key Biscayne Gateway property and we have already interconnected Harbor Plaza with the intention of a

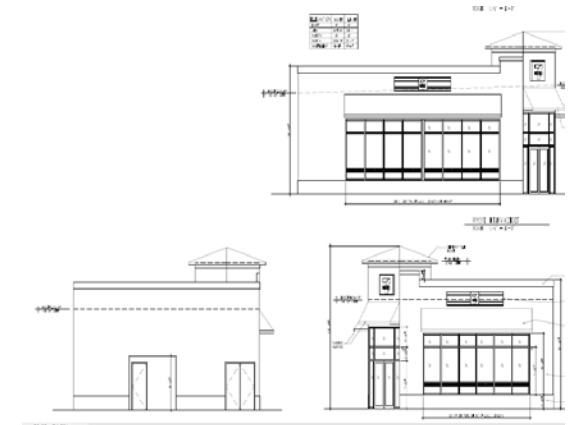
future synergy between the properties upon the redevelopment of the Gateway parcel. Harbor Plaza is 100% occupied with the addition of the new reflexology salon.

COMMODORE PLAZA

Our office building remains 100% occupied. This year will see a new paint color and the walkways recovered in a natural stone.

BRICKELL PROPERTY

After months of permitting and approval we are on the verge of breaking ground for our new 7-Eleven store at 1099 SW 1st Avenue, across from the Brickell metroraIl station. This one of a kind retail site will generate a long term, stable and growing income for our partners. We remain vigilant looking for additional opportunities in the Brickell area.



RENDERING FOR THE NEW 7-ELEVEN

BIRD BAY PLAZA

We welcome the Real Bikes, Brazilian Jiu-Jitsu, Hibach Grill, Leslie's Pool Mart and ADIO Chiropractic to the property in 2011. The Hibachi Grill completed a first class buildout and has become a top competitor among oriental buffets in the Sarasota County area. They draw a whole new customer base to the Center serving more than 1000 people per day. Real Bikes has also proven to be more successful than we could have expected, including a full line of bicycles and associated gear, spinning and bike training classes, smoothie bar and a service department.

We also restriped the parking lot and eliminated of the former bank's drive-thru facility in order to enhance visibility and create additional parking serving the Hibachi Grill.

Leslie's Pool Mart opened after completing their unique build out which offers an illusion that the store is inside a swimming pool.

We are pleased with the quality of the new tenants that are coming into the property.

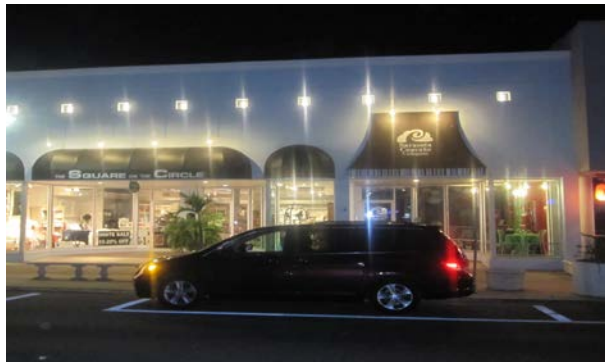
The Legacy Trail Bridge was completed and the recreational trail connects with the Shopping Center. It is great to see the steady stream of bicyclists and walkers stopping at the property.



LEGACY TRAIL BRIDGE

ST. ARMANDS CIRCLE

We have pressed forward with repairs and capital improvements at these two properties. The improvements include electrical, sewer line, emergency exit stairs, and also include cosmetic improvements like granite inserts in the bottom window panes of the Ringling Building and new lighting at both buildings. We also vanilla boxed in the vacant space on the second floor of that building. We'll also be adding new bathrooms with marble finishes and have repainted the buildings in vibrant new colors. We replaced two tenants, one became the Sarasota Cupcake Company and the other The Poshy Boutique. We are very pleased with the acquisition of this property and continue to aggressively look for additional St. Armand's Circle properties to add to this portfolio.



PRESIDENTS BUILDING

MARIETTA SQUARE

Delhaize America closed 109 locations in South Georgia and North Florida effectively pulling out of the market and our Food

Lion store was included. They have 4 1/2 years remaining on their lease and they continue paying us rent and have offered us a buyout in order to early terminate. We have been working diligently to find a replacement tenant. The loss of an anchor tenant also affects small shop leasing and it will continue to be a challenge to operate Marietta Square until a new anchor is found. In addition, we will lose the Marietta Heath Clinic which will be leaving this year at the end of their term. The State of Florida health clinic was the victim of Gov. Scott's budget cuts.

SARASOTA CROSSINGS SHOPPING CENTER

The Sarasota Crossings remains well occupied. The Office Depot and HHGregg stores opened at this property in the last few years. We have now entered into a lease for our last remaining large vacancy with the LTM Party Store which will be opening by August of this year. Our remaining vacancy is a negligible 1500 square feet. The property is in superb condition.

TAVERNIER TOWNE SHOPPING CENTER

Tavernier Towne has had a lot of attention over the last year. We remodeled the Winn Dixie façade and completed structural repairs.

The new sewer system in the Keys permitted us to re-plumb the property, completing major repairs to the water line and sewer line and connecting to the county owned sewer system forever eliminating our sewage treatment plant. It is a relief to not be involved in operating a sewage treatment plant anymore. The changeover was completed flawlessly and now we have the remaining project of replacing the roof, which because of the property's location in the Florida Keys is another huge undertaking. There are much more stringent wind lift requirements in the Keys than any other part of Florida which make the engineering for and construction of a new roof a big project.

We welcome our new tenants including Domino's Pizza, Vitas Healthcare and the 305 Salon. The Keys were hurt badly during the recession but are now starting to show signs of bouncing back. We therefore expect Tavernier Towne to benefit from those improving conditions.

TRAFALGAR SQUARE SHOPPING CENTER

We continue to have a vacant Winn Dixie store with Winn Dixie having almost two years remaining on their lease. Winn Dixie has been acquired and taken private by a large private equity fund, Lone Star. Lone Star already owns another grocer in the Carolinas, BiLo. The direction of Winn Dixie's business is highly likely to change under the new ownership but how has not yet become clear.

In the meantime, we have been working aggressively with prospective tenants for the Winn Dixie space and are in serious

negotiations with several at this time but nothing has come yet that constitutes a new tenant deal. We are unaware if Winn Dixie is giving any consideration to reopening the store in light of the change of their ownership.

We have managed to keep most of the local space occupied although there has been a small increase in our vacancy at this property during 2011.

SARASOTA COMMONS SHOPPING CENTER

We added \$5.00 Fashions, Performance Physical Therapy, Sofrito Mama's and replaced Cricket's Carpeting Store with Bob's Carpet Mart. We have also done some parking lot restriping and also some repairs arising out of a lightning strike. We continue working at filling our two big box vacancies at this property. Publix exercised their option for another 5 year term.

INSURANCE

Our captive insurance company American Windstorm and Marine Casualty still has not suffered a claim as there have been no hurricanes strike since we formed this entity and therefore it is well funded to help us deal with a future windstorm event. We always remain hopeful that the next hurricane will not be this year.

COMMODORE REALTY, INC.

Our team has worked tirelessly to keep everything well managed, well accounted for and well leased. We will add some team members in 2012 to fulfill the demands of the times. In the meantime, Sarah Perez rejoined our firm as our Director of Leasing, Tenant Relations and Acquisitions, we welcome her back.

The team works diligently to keep expenses under control and keep occupancy up. We are thankful to each of them for a job well done.



RINGLING BUILDING

REPORT FROM THE BRIDGE

Annual Report April 2012



The community of Key Biscayne
Flanked by Crandon Park to the North
and Cane Florida Park to the South



30 W. Mashta Drive, Suite 400
Key Biscayne, Florida 33149
Phone (305) 365-2600
Fax (305) 365-0800
www.CommodoreRealty.com