



1650 Tysons Blvd., Suite 1600
McLean, VA 22102

tel 703.714.8000
fax 703.714.8100

April 30, 2004

Mr. Mike Bartletti
Director of Real Estate
Teachers' Retirement System of the State of Illinois
2815 West Washington
Springfield, IL 62704

Dear Mike,

Please find enclosed a copy of the JER Fund III questionnaire to Teachers' Retirement System of the State of Illinois. JER is looking forward to the opportunity to present to the TRS board on May 25th. In the meantime, should you have any questions regarding the information presented herein, my colleagues and I would be happy to address them.

Best regards,

A handwritten signature in cursive script that reads "Clyde W. Robinson".

Clyde W. Robinson

Enclosures

cc: Tim Hays

**Teachers' Retirement System
of the State of Illinois**

Real Estate Investment Manager Questionnaire

The Teachers' Retirement System of the State of Illinois ("TRS") Questionnaire will be the primary source of information for the System to evaluate an investment manager (JER Partners) as a potential provider of services. For this reason, it is important that the information provided be complete and in the format requested. Please keep your response to each question to one or two pages. Many questions can be answered with a brief response. Please submit your completed questionnaire with attached exhibits, tabbed accordingly, as a bound document.

Organization and Management

1. Contact and Company Information:

Name of Firm: JER Partners
Mailing Address: 1650 Tysons Blvd., Suite 1600
City: McLean State: VA Zip Code: 22102
Phone: 703-714-8000 Fax: 703-714-8100

Federal Employer Identification Number: 52-1215323

Contact Person(s):

Name: Clyde Robinson Phone: 703-714-8016
Title: Director, Investor Relations Fax: 703-714-8141

2. Is your firm currently registered as an Investment Advisor under the Investment Advisor Act of 1940? If yes, please attach a copy (tab as exhibit A) of your most recent SEC Form ADV.

No.

3. Is your firm currently registered to do business in the State of Illinois as an Investment Advisor?

No.

4. Describe the entity TRS would contract with for the proposed investment advisory services, and the ownership structure of that entity. Provide each identified entity's involvement in real estate investments within the last five years.

TRS would enter into a partnership agreement as a limited partner with JER Real Estate Qualified Partners III, L.P. ("JER Fund III"), which is managed by JER Partners. JER Partners is an affiliate of The J.E. Robert Company, a Sub Chapter S Corporation wholly-owned by Joseph E. Robert, Jr.

Beginning in 1997, JER Partners began raising a series of real estate funds from institutional and high net worth investors. Today, JER has five real estate investment funds with over \$1.7 billion in equity commitments: three funds are focused on North America and two funds are focused exclusively in Europe. With regards to the two North American funds that are fully invested, JER Fund I made 53 investments with an all in cost of \$1.2 billion and JER Fund II made 45 investments with an all in cost of \$1.7 billion.

5. Is the management entity covered by errors and omissions insurance? If yes, how much coverage do you have?

JER maintains a \$10,000,000 errors and omissions insurance policy that covers certain affiliated entities, including J.E. Robert Company, Inc. The policy has a \$250,000 deductible. JER also maintains a General Partners Liability insurance package, with \$25,000,000 of aggregate coverage and a \$250,000 deductible that insures the general partners of JER's existing investment funds against certain claims, including errors, omissions, breach of duty and misleading statements.

6. A.) Have there been any changes in ownership structure in the last five (5) years? If yes, when? Please describe nature of change.

No.

- B.) Are there any anticipated changes in the ownership structure, core line of business, or senior staffing of your firm?

There are no anticipated changes in ownership structure or core line of business. We are anticipating director-level promotions and additions to our staff in both domestic and European operations. In the event of unanticipated departures, the company has a succession plan in place.

7. **What safeguards for the investors is your firm providing in the event there is turnover of key people in the firm (e.g. limited partner advisory board, key person provisions, and/or no-fault termination provisions)?**

JER Fund III has multiple provisions to safeguard investors in the event of a turnover or other substantial changes at the firm.

Key Man Provision: If both Joseph E. Robert, Jr. and Deborah L. Harmon cease to devote a majority of their business time to the JER Funds and their respective investments, the General Partner will promptly give notice to the Limited Partners and the obligation of the Limited Partners to make Capital Contributions shall be suspended until re-instated by vote of Limited Partners representing 66 2/3% in interest of the Limited Partners.

No Fault Termination Provision: Limited Partners representing at least 66 2/3% interest of the Limited Partners may either (i) require the removal of the General Partner or (ii) dissolve and liquidate JER Fund III. In either such event, the General Partner shall be entitled to receive certain amounts provided for in the Fund's Partnership Agreement with respect to a liquidation of JER Fund III, inclusive of giving effect to the Carried Interest.

8. **Provide an organizational chart (attach and tab as exhibit B). Include the number of investment professionals and non-professionals in total and those that will be assigned to the TRS account for each of the following categories: Acquisition, Asset Management, Disposition, Client Relations and Research. Also identify your key employees by title, function, years with your firm, years as an investment professional, years of real estate investment experience and educational background.**

Please see Exhibit B for the JER organizational chart and background information on key employees. The table below shows total number of professionals and non-professionals at JER, as well as the number of professionals and non-professionals dedicated to JER's fund management business of which TRS would be a limited partner. With respect to the staffing categories specified by TRS, JER does not have any staff exclusively focused on Dispositions or Research due to the integrated nature of the firm. Each of these functions is performed in connection with the duties of the investment management employees and is spread broadly across multiple divisions. JER has identified seven groupings for its staff, which more closely reflect the integrated nature of JER's business: Acquisitions, Asset Management, Risk Management, Finance & Accounting, Client Relations, Legal, and IT/HR/Administrative.

	<u>Total Professionals</u>	<u>Total Non-Professionals</u>	<u>Dedicated Fund Professionals</u>	<u>Dedicated Fund Non-Professionals</u>
Investment Management				
Acquisitions	22	6	22	1
Asset Management	19	5	18	1
Risk Management	3	1	3	1
Finance & Accounting	22	5	17	1
Client Relations	5	2	5	2
Legal	4	3	4	2
IT/HR/Admin	4	11	0	0
TOTAL	79	33	69	8

9. Give a brief description of your firm's compensation arrangements for investment professionals (e.g. salary, bonus, group/individual performance incentives, profit sharing, equity ownership, etc.).

JER's compensation plan has two basic goals: (1) to attract and retain key personnel; and (2) to stimulate productivity and foster behavior consistent with the firm's core values. The company's "pay-for-performance" strategy is incentive based and follows a practical form of stimulus and reward. Under the JER incentive compensation plan, all officers receive a base salary, set at a competitive rate. Officers are also eligible for a bonus that varies directly with the fund's performance. Cash bonuses typically range from 25-100% of salary. The Officers' total compensation may include a participation in the profits of the company and/or a participation in the profits generated from the funds.

10. Is your firm planning to hire any additional personnel, professional or support, in connection with the management of the TRS account?

JER is committed to maintaining a world-class investment and asset management company. JER is actively seeking to hire a Managing Director for its West Coast operations. Besides this position, JER expects the staffing level for 2004 to remain at the current level; however, JER continuously assesses its staffing needs to insure the proper staffing level.

11. Does your firm do business in areas other than asset management (brokerage, consulting, etc.)? If so, please provide a listing of your firm's divisions along with their contribution to the firm's total revenues and expenses (in percentage terms).

No. JER is singularly focused on investing in and managing real estate and does not face the same types of conflicts endemic to firms involved in other activities such as investment banking, consulting and brokerage.

JER has two main businesses: (i) JER Partners is the investment and asset management division and (ii) JER Revenue Services is one of the leading delinquent real estate tax servicing firms in the nation serving clients that include New York City, the City of New Haven, Connecticut and numerous other communities.

The vast majority of the firm's revenues and expenses are derived from JER Partners.

- 12. Did or will the firm provide or share, agree to provide or share, or arrange to receive, provide or share any payment, compensation, benefit or reciprocal influence, direct or indirect, to any individual or entity for assisting in: (a) soliciting, marketing for, or obtaining the engagement; or, (b) maintaining the engagement or performing the services pursuant to the engagement. If the answer is "yes," provide for each such individual or entity: (a) the name and address of the individual or entity, (b) a description of the assistance provided, and (c) the payment, compensation, benefit or reciprocal influence. (In the event the investment manager has agreed to pay a third party any introduction or referral fee in connection with the proposed investment management relationship with the System, Staff shall disclose to the Board in writing before the investment relationship is approved by the Trustees the identity of the payee as well as the terms of any such proposed payment prior to the System becoming obligated to proceed with the investment).**

JER Partners has engaged Atlantic-Pacific Capital, Inc. to assist with marketing of JER Fund III.

Contact person:
Edward A. Chestnut
Atlantic-Pacific Capital
123 N. Wacker Dr.
Suite 800
Chicago, IL 60606
312-922-9450
echestnut@apcap.com

JER Fund III is responsible for the payment of placement fees. However, any such fees paid will be credited dollar-for-dollar against investment management fees paid to the general partner. Therefore, on a net basis, the general partner absorbs all placement fees.

- 13. Provide a five-year business plan outlining your firms' goals and objectives. Attach a Strategic Business Plan (tab as exhibit C).**

Please see **Exhibit C** for a summary of JER's five year strategic objectives and goals.

14. Describe your financial condition and sources of revenues and expenses in detail. Provide most recent financial statements (tab as exhibit D).

JER is highly solvent with significant net worth and retained capital. The company has no long-term indebtedness. JER is audited on an annual basis by Ernst & Young. As of December 31, 2003, E&Y issued an unqualified opinion for the company.

Primary sources of revenue for the firm include management fees and carried interest received from the funds currently managed by JER. Expenses primarily include payroll and general and administration charges.

JER is a private company, wholly-owned by Joseph E. Robert, Jr. As a matter of policy, the company does not release its financial statements; however, Joe Robert is available to discuss the overall financial condition of the firm, if necessary, and can be reached at 703-714-8024.

15. Please provide the identity of your principal banking relationship and the name and telephone number of your account representative.

Sam Schreiber
Regional President
Wachovia Bank
(703) 760-6940

Nick Seidenberg
Director
Wells Fargo Bank
(202) 303-3000

Legal Issues

16. Has your firm ever been involved in any litigation arising from the firm's role as an investment manager? Is your firm currently involved in any litigation? Please comment.

There have been a limited number of litigation actions involving investment management activities relating to disputes with purchasers, sellers and other third parties. None of these litigation actions have had a material adverse effect on the overall results of the various funds managed by JER. Moreover, management does not believe that these litigation actions will have a material adverse effect on the overall results of the various funds managed by JER. JER's General Counsel, maintains a confidential litigation report that is updated on a quarterly basis. Further inquiries may be made to the General Counsel, Dan Ward (703-714-8071).

- 17. Has a civil legal judgment of any kind ever been entered against a shareholder, partner, officer or key employee of your firm? If the answer is yes, please provide the details including the date of judgment, jurisdiction and the current status of the proceeding.**

No.

- 18. Has any current shareholder, partner, officer or key employee of your firm ever been terminated or forced to resign from his/her employment for reasons related to professional competence, ethical and/or financial improprieties and/or unsatisfactory performance? If the answer is yes, please provide the details including the name of the individual and the identity of the former employer, together with an additional copy of the authorization form signed by the identified individual.**

Due to the confidential nature of employee records, please contact Connie Parker, Managing Director for Global Administration, at (703) 714-8061.

- 19. Has any shareholder, partner, officer or director of your firm ever been charged with and/or convicted of a criminal offense (other than traffic court violations) or charged by any regulatory agency with violations of financial or professional regulations? If the answer is yes, please provide all details including the caption of the proceeding and its disposition and/or status.**

No.

Assets Under Management

- 20. Describe the total investment portfolio currently managed by your firm, including the total assets currently under management. Provide a one, three and five year performance history for the total portfolio as of the most recent quarter. Performance figures presented should satisfy AIMR performance standards.**

Since 1997, JER Fund I and JER Fund II have invested in 87 transactions, including 39 single real estate asset transactions, 24 CMBS transactions, 16 portfolio acquisitions, four investments in real estate operating companies and four mezzanine loan transactions. The all in costs of these investments for JER Fund I and JER Fund II is \$1.2 billion and \$1.7 billion, respectively. The underlying assets acquired by the funds are located in seven countries and include approximately 14.6 million square feet of office space, 3.9 million square feet of retail space, 5.0 million square feet of warehouse/industrial space and over 12,000 apartment units.

As of December 31, 2003, JER Fund I had a current cost basis of \$249 million. Measured as a percentage of cost basis, JER Fund I is 79% realized. JER Fund II had a current cost basis of \$1.2 billion and is 31% realized. These funds continue to be diversified with respect to geography and

property type. The tables below detail the stratification of investments in JER Funds I and II based upon current cost basis as of December 31, 2003.

<u>Geography</u>	<u>JER Fund I</u>	<u>JER Fund II</u>
Northeast	45.4%	18.8%
Mideast	0.5%	8.6%
East North Central	0.6%	3.9%
West North Central	1.4%	1.0%
Southeast	1.4%	2.3%
Southwest	15.0%	10.5%
Mountain	11.8%	0.4%
Pacific	9.3%	9.0%
Other*	14.6%	45.6%

<u>Property Type</u>	<u>JER Fund I</u>	<u>JER Fund II</u>
Office	29.1%	54.1%
Industrial	5.5%	- %
Lab/Office	40.2%	16.3%
Apartment	4.2%	4.0%
Retail	8.4%	15.5%
Other	12.8%**	10.0%***

* Includes international, CMBS Re-Remic and operating company

** Other category includes CMBS Re-Remic: 7.1%; Hotel: 2.6% and Other: 3.1%.

*** Other category includes Assisted Living: 8.5%; Hotel: 0.8% and Other: 0.8%.

Gross time-weighted returns for JER Funds I & II as of December 31, 2003 have been provided below:

<u>Period</u>	<u>JER Fund I</u>	<u>JER Fund II</u>
One-Year	8.5%	(2.2)%
Three-Year	12.5%	4.5%
Five-Year	14.0%	n/a

The time-weighted returns presented above only capture historical performance and, as such, are not an accurate reflection of fund performance until a fund is "harvesting" investments. As JER Fund II's investment period ended less than 12 months ago, a better measure of the results of the life of the fund partnership is the life of fund IRR, which includes both actual results to date and projected business plans (updated quarterly for current market statistics). The projected life of fund gross IRRs for JER Fund I and JER Fund II, as of December 31, 2003, are 18% and 14%, respectively (may not be in compliance with AIMR standards).

21. Provide a complete current client list with the contact person and telephone number. Please specify the type of client (e.g. public fund, endowment, corporate, or private investor). Copy the Reference Questionnaire Authorization Letter (Exhibit A) on your company letterhead and distribute to at least three (3) individuals or entities that may release information concerning you or your firm. Also provide a list of former clients who have discontinued their relationship with your firm in the past three years and state the reasons the client discontinued the relationship.

Except for a select number of investors who wish to remain confidential, JER's investors are summarized in the table below.

Public Pension Funds		Financial Institutions	
Fresno County Employees Retirement Association		Allstate Insurance Company	
Kansas Public Employees Retirement System		American Family Insurance Group	
Oregon Public Employees Retirement Fund		Deutsche Bank	
Annuity Board of the Southern Baptist Convention		FleetBoston Financial	
Austin Presbyterian Theological Seminary		Mass Mutual Financial Group	
United Food and Commercial Workers		New York Life Insurance Company	
Virginia Retirement System		Northwestern Mutual Financial Network	
Washington State Investment Board		TIAA-CREF	
		Wachovia Corporation	
		Wells Fargo	

Corporate Pension Funds	Multi-National Institutions	Endowments	Family Offices and Others
Bayer Pensionskasse	United Nations	Brown University	Olayan America
Boeing	World Bank	DePauw University	Simpson Thacher
John Deere		Stanford University	HNW Families
Northwest Airlines		University of Chicago	JER/General Partner
		University of North Carolina	

A reference list with pre-authorized contact information for select investors is included in Exhibit A.

Please see Exhibit A for the Reference Questionnaire Authorization Letter, which was sent to Virginia Retirement System, Stanford University and Allstate Insurance.

No limited partner has ever withdrawn from the funds in which they are a partner. Among JER's clients, only one has chosen to sell its limited partnership interest. Deutsche Bank has chosen to invest directly in real estate through RREEF and its own internal real estate investment product, thereby selling its share of JER Fund I and JER Fund II to the secondary market.

- 22. Provide a complete current investment list with the name and telephone number of the CEO for each investment. Also provide a complete list of liquidated investments with the name and telephone number of the CEO for each investment. Provide a complete list of contact persons and their telephone numbers for co-investors and/or financing sources in any of the investments listed.**

JER, through its real estate funds, primarily purchases real estate assets. As such, there is not a CEO for individual investments. Please see the answer to question 23 for a complete list of all investments made by JER.

A reference list with pre-authorized contact information for co-investors and financing sources is included in Exhibit A.

- 23. Provide a separate list for all real estate investments made in the past 5 years, in the format requested in Schedule A (tab as exhibit E).**

Please see Exhibit E for a list of investments for JER Fund I and JER Fund II.

Deal Flow

- 24. How does your firm generate deal flow?**

Over its 23-year history in real estate, JER investment professionals have developed an extensive network of professional relationships that yields strong transaction flow. The company has considerable experience in acquiring assets through its network of industry contacts. JER Fund III will have the advantage of leveraging this comprehensive network of transaction flow sources.

JER also utilizes proactive investment sourcing strategies. Local partners help source off-market transactions, provide competitive market information, establish local service provider relationships and work with JER to continually reduce risk in investments. JER's Global Advisory Board Members also help source large-scale corporate investment opportunities. Please see Exhibit B for a listing of the Global Advisory Board members.

- 25. How extensive is your firm's network of contacts that serve as a source of potential investments?**

Please see the answer to question 24 above.

- 26. How many potential investments does your firm review in a year?**

JER reviews approximately 500 to 800 potential investments in a year. Of the transactions reviewed by JER's North American and European investment teams over the last 12 months, approximately 100 transactions totaling over \$6 billion were actually underwritten for possible

investment. Of these investments, approximately 20-25% were presented to JER's Investment Committee for preliminary review and discussion.

27. How many investments are made in an average year?

Since 1997, JER has made 87 separate investments in JER Fund I and JER Fund II, representing a gross investment of \$5.6 billion, including real estate assets and property portfolios; mortgages, loan portfolios and commercial mortgage backed securities ("CMBS"); and investments in real estate operating companies. These assets are located in seven countries including the United States, Canada, Mexico, France, the United Kingdom, Spain and Portugal. The firm has invested on average over \$380 million in cost basis and made approximately 12 investments per year in JER Fund I and JER Fund II.

Investment Strategy and Process

28. Why do you believe that institutional investors should consider investing in real estate in the current market? Please discuss both favorable and unfavorable characteristics of real estate investment from the perspective of institutional investors.

Following a global economic slowdown over the last 2 years, the United States and European economies are presently trending toward an economic recovery. Economic conditions have had a major impact on real estate fundamentals. The collapse of the technology sector, substantial levels of corporate bankruptcies, reduced corporate earnings, falling financial markets, and substantial layoffs in the financial sector have resulted in U.S. office vacancy rates increasing over 16% nationally and rents in certain U.S. markets dropping by as much as 20-30%.

The current market is analogous to the early 1990s -- a sharp downturn, a slow economic recovery and lagging real estate fundamentals. However, there are two critical differences today: (i) mature, healthy real estate capital markets have been able to provide liquidity, and (ii) banking reforms and public market discipline in the 1990s have kept the supply of new real estate in check. These two differences have resulted in lower loan-to-value financing structures and less speculative building. Overall, the deteriorating fundamentals have been driven by a lack of demand, and therefore, the biggest risk in projecting recovery is the timing and pace of increasing demand, particularly for office space.

Despite the current economic turmoil, both domestically and internationally, real estate has performed consistently in contrast to other major asset classes in North America and Europe over the last 10 years. In fact, over the 3, 5 and 10 year periods, ending in December 2003, real estate has been the best performer among all major asset classes in the United States. JER believes that real estate continues to be an attractive and stable investment relative to other asset classes. Yields have been relatively consistent and at more attractive levels than bonds. Fully leased real estate has become a sought after investment for institutional capital.

Capital continues to flow into real estate at record levels, which is increasing property valuations and producing a market ripe for sales of assets at attractive prices. JER Fund I and JER Fund II continue to capitalize on market conditions by selling assets and returning capital to their investors.

29. What type of investment strategy does your firm employ? How does it differ from your peers?

JER has consistently applied a value-added investment strategy which offers opportunistic return potential. We believe other "value-add" managers (i) focus less on current income assets, (ii) focus exclusively on specific geographic regions or asset types, and/or (iii) employ higher levels of leverage. In contrast, JER: (i) targets investments that generate significant cash flow; (ii) focuses on creating a diversified portfolio of investments; and (iii) employs moderate levels of leverage.

JER has made 80% of its investments in traditional cash flowing real estate assets including office, retail, industrial and multi-family. JER also limits its exposure to land and development. JER's focus on investments with significant cash flow enables JER to return cash more quickly to its investors. This cash flow, along with JER's strict selling discipline, has resulted in higher realizations of returns, as demonstrated by JER Fund I's cash realization ratio of 117% and JER Fund II's cash realization ratio of 49%. We believe other managers adversely place greater emphasis on "alternatives" such as telecom hotels or timeshares, and on asset appreciation and residual returns through development or other deferred investment strategies.

JER emphasizes risk management through diversification and the hedging of risk. Historically, as part of its integrated risk mitigation practice, JER has acquired a large number of "non-correlating" assets with emphasis on geographic, property type, tenant and investment strategy diversification. JER further reduces the potential risk of investments by limiting the maximum investment size of transactions. No single asset in JER Fund I or Fund II exceeds 10% of total fund equity. The large number of assets and diversity of investments greatly mitigates the potential adverse effect that any single asset or event can have on the overall returns of the funds. In addition, JER implements interest rate and currency hedging strategies to mitigate risks where appropriate. JER's emphasis on control and risk management permeates its investment philosophy and the company utilizes comprehensive risk management for all of its investments at the asset and portfolio level.

30. Please provide, based on your firm's current investment strategy and policies of diversification in building a portfolio of real estate investments, the following diversification breakdown. What would be your firm's largest recommended exposure in the diversification models listed below?

JER will continue to emphasize diversification as part of its investment strategy in JER Fund III. No single investment made by JER Fund III may exceed 20% of total capital commitments. With respect to investments outside the U.S. and Canada, JER Fund III is targeting a 10% allocation, but in no event will such allocation exceed 25%.

JER anticipates the following pro forma composition for JER Fund III. Based on historical experience, we expect JER Fund III will make between 50-75 separate investments.

**Estimated Percentage of Total
Capital Committed**

By Property Type

Office	25%
Multi-Family	15%
Retail	10%
Industrial	0%
Hospitality	15%
Assisted Living	15%
Distressed Debt / CMBS	10%
International	<u>10%</u>
Total	100%

By Geography*

Northeast U.S.	20%
Mideast U.S.	20%
E. North Central U.S.	10%
W. North Central U.S.	0%
Southeast U.S.	10%
Southwest U.S.	10%
Mountain U.S.	10%
Pacific U.S.	10%
International (Canada, Mexico, Europe)	<u>10%</u>
Total	100%

* U.S. geographic classifications as defined by NAREIT

By Investment Type

Real Estate Portfolio	40%
Real Estate Single Asset	40%
Other High Yield Debt (incl. mezz and CMBS)	10%
Other	<u>10%</u>
Total	100%

31. If applicable, please describe the firm's experience and qualifications in overseas real estate investing.

JER has made a substantial investment in human and capital resources in Europe since its earliest investments in the mid-1990s. Today, JER operates European offices in London and Paris with a total team of 25 dedicated staff. JER's London office, which coordinates all investment and management activities in Europe, is fully integrated with legal, finance, asset management, accounting, investor relations and other administrative functions. The European team is multi-cultural, with staff from the U.K., Germany, France, Italy and the U.S.

In each market where JER is actively pursuing acquisitions, it has identified one or more local relationships that supplement JER's direct investment staff efforts. In many cases JER has, or expects to partner with these parties on new and existing investments. JER brings structuring, financing, real estate and execution skills to the partnership and uses the local knowledge of its partners and other local relationships to supplement its own skills to navigate the intricacies of that market, as well as to execute certain day-to-day property related activities on existing investments. JER and its partners work very closely with one another, but JER drives the pace of due diligence, development of the business plan and ongoing management of investments. This is conducted by and through the JER Europe team previously described.

JER has raised two separate investment vehicles to make acquisitions in Europe, which to date have made nine investments with an all in cost basis of €322 million.

Malcolm Le May is the President of the European operations and has responsibility for the development and execution of strategy and the management of operations across the UK and Continental Europe. Mr. Le May's other main responsibilities include the origination, sourcing and execution of transactions, the raising of capital and the further development of relationships with investors. Mr. Le May is a member of JER's Global Investment Committee and the Executive Board. He also chairs JER's European Investment Committee. Between 1990 and 1995, Mr. Le May worked for Barclays de Zoete Wedd (BZW) in New York, serving first as co-Head of US Investment Banking and then as Head of US Corporate and Investment Banking. In 1995 he became Vice-Chairman, Head of Corporate Finance, Region Europe, for UBS in London. He subsequently became Head of Investment Banking, Europe & Deputy Chief Executive, Europe. In 1998, Mr. Le May joined ING Barings, where he was Deputy Chief Executive and Global Head of Corporate and Institutional Finance. Prior to joining JER Partners in 2003, he worked for Morley Fund Management in London, where he served as Deputy Chief Executive with responsibility for the firm's business in the UK and Continental Europe, including the property and real estate sectors. Mr. Le May is a chartered accountant and holds a degree in accounting and business studies from the University of North Wales.

Investment Due Diligence

32. What key management qualities are sought in potential investments?

JER primarily invests in real estate assets. To the extent JER forms a joint venture with an operating partner or purchases select real estate operating companies, it targets the following qualities:

- Unquestionable integrity
- Proven ability to add value
- Market and asset expertise
- Proven communication skills and openness
- Reliability and responsiveness
- Track record of previous success with institutional partners
- Managerial depth
- Speed
- Flexibility

33. How are objective references obtained?

To the extent JER is evaluating a potential operating partner or borrower, JER requires a list of previous transactional experience from the operating partner or borrower that includes the transaction's lenders, partners, sellers, brokers and other advisors. JER then interviews the relevant parties within that list of references.

In addition to the references listed by the subject party, JER identifies and interviews un-related parties who know the subject party either as a result of their industry contacts or local presence. Finally, JER uses any personal relationships that it has among the references' firms to obtain honest and objective feedback.

34. What questions are the references asked?

In addition to many of the same questions set forth in the TRS questionnaire, along with clarification of specific deal and partner issues, typical questions asked of potential references include:

- Was your investment with the subject firm a success/failure? Why?
- What could the subject firm have done to improve the investment?
- If you had it to do again, what would you do differently in structuring the partnership?
- Would you either invest in or partner with the subject firm again?
- In what ways did the subject firm add or create unique value in the relationship?
- What could the subject firm have done that they did not do?
- How does the subject firm respond to differences of opinion or conflict among partners?
- Please elaborate on the moral character of the officers of the subject firm.
- Was the subject firm ever commercially unreasonable in its requests or behavior?
- How did the subject firm deal with control issues?
- How did the subject firm perform with respect to reporting and general communication?

- Was the subject firm an effective administrator?
- How was the subject firm viewed by its employees?
- How was the subject firm viewed by other parties involved in the transaction?
- Who else should we talk to that would have an opinion on the subject firm?

35. How are the products/services of a potential investment evaluated?

All potential JER investments are evaluated on multiple levels. At the macro-level, JER evaluates the overall performance of the investment's geographical market and asset class. In evaluating a market, JER complements its in-house market expertise with outside consultants such as Maximus Advisors, a company that uses proprietary econometric models to predict the potential growth of a market.

At the micro-level, the positioning and performance of an investment within its sub-market is evaluated to determine the relative quality and potential of the investment. As part of the micro-level evaluation of an investment, the acquisitions team conducts a rigorous analysis of the assets involved in the investment. Key steps in the analysis include:

- Developing financial models, including detailed sensitivity analyses of the major risks associated with the investment (e.g., leasing risk, environmental risk, market risk, etc.);
- Making site visits;
- Reviewing local market rental and sales comparables;
- Underwriting the financial and operating capabilities of any potential local partners;
- Performing legal, accounting, tax, environmental, zoning and structural analyses; and
- Consulting asset managers.

Given the cyclical nature of real estate markets, JER may decide to generally avoid certain asset classes or geographies in response to the cycles. However, JER may still find specific investments within these less-favored classes or geographies that are attractive when structured properly. Finally, the asset class and geography of a particular investment are evaluated in terms of the investment's impact on the risk profile of the fund. Diversification permeates JER's underlying investment philosophy to reduce risk. JER Fund I and JER Fund II have achieved diversification as to transaction type, product type, geographic location and tenancy.

36. What sources are used to evaluate market potential?

JER's acquisitions and asset management professionals monitor market activity and trends through various channels. JER works with its sales and leasing agents on a regular basis and meets regularly with its numerous local operating partners. In addition, JER professionals attend various industry conferences and meetings. JER's extensive market research allows us to use sensitivity analyses to quantify various types of risk and minimize any unnecessary exposure.

JER also conducts "macro economic research" and local market demographic research as part of its value-added investment process. For example, a member of JER's Global Advisory Board is Fred Bergsten, a Director of the Institute for International Economics (IIE), one of the world's leading economic "think tank" institutions. Joe Robert is also a member of the IIE. Mr. Bergsten and the IIE provide JER with proprietary and real-time macro economic data to allow JER to gain insights on possible capital market dislocations and mis-pricing opportunities as part of its value added investment process. For example, if there is a shortage of capital flows in an identified market, JER may seek specific acquisition opportunities to take advantage of macro capital shortages. JER also obtains market research through its relationship with Maximus Advisors, a real estate research firm specializing in providing tailored reports for its clients. Several members of JER's team have a longstanding working relationship with the principals at Maximus Advisors.

37. How extensive is the market analysis?

JER has developed a rigorous and disciplined approach to determine whether a prospective investment can achieve JER's targeted, risk-adjusted returns. This approach involves thorough market analysis; physical property examination; environmental, structural and zoning review; exhaustive financial modeling; and legal, accounting and tax due diligence for each investment. As part of the investment selection process, JER identifies capital market constraints and mispricings as well as value-added opportunities that may impact the investment. As part of the underwriting process, JER identifies multiple exit strategies in order to ensure that each investment can be disposed of in accordance with underwriting assumptions. All of these factors are taken into account in order to achieve optimal pricing and structure for the investment.

During the due diligence process for all investments, JER attempts to mitigate risk by identifying multiple exit strategies for an investment, including negotiated portfolio sales, partial dispositions through strategic joint ventures and refinancing alternatives. For example, for the 2002 acquisition of a portfolio of 43 assisted living properties containing over 1,400 units, JER personnel conducted due diligence and site visits of all 43 properties. In addition, JER personnel visited the three to four competitive properties for each of the 43 properties acquired and wrote up asset summaries describing the highlights and the challenges on an asset-by-asset basis. This information, along with other detailed data on the portfolio, was used in combination with a comprehensive industry report written by JER's acquisitions team and presented to the JER Investment Committee. JER fully utilizes the background research compiled through its extensive due diligence process.

38. How is the past performance of a potential investment evaluated?

JER evaluates both the relative past performance of a potential investment with respect to similar assets within the investment's market, as well as the performance of the investment's market with respect to other markets. In evaluating the performance of the asset with respect to similar assets in the market, JER determines whether the asset is underperforming as a result of poor management or a design that is functionally obsolete. JER also evaluates the repositioning potential of an asset by assessing the past performance of alternative asset types within a market.

JER leverages the proprietary knowledge base that it has built through investments in multiple markets and asset classes to further analyze the past performance of an investment. Using this knowledge base, JER is able to compare the past performance of a potential investment to the performance of similar assets that JER has owned, evaluated and underwritten in both the same and other markets. In many cases, JER currently owns similar assets in the same market and can utilize its proprietary knowledge of the market and economic factors (such as current economic, leasing and tenant activity) to which de-novo investors cannot be privy.

39. How are potential investments valued (market value, prospective future value, etc.)?

In determining the value of potential real estate investments, the following quantitative metrics are considered:

- Market comparables
- Projected cash flow assumptions
- Leveraged and unleveraged IRRs
- Discounted cash flow analyses
- Cash-on-cash yields
- Capitalization rates
- Net present value analyses
- Price per unit or price per square foot
- Replacement cost

Each of the metrics above is used by JER in its valuation process. Only those investments that meet JER's strict underwriting standards will be considered for potential investment.

40. What internal review process is used to screen potential investments?

JER's fund management team carefully screens all potential investment opportunities and identifies investments with attractive return potential and for which JER may be able to develop a strategic advantage over its competitors. Assuming that the transaction meets certain investment criteria, JER will begin preliminary market analysis and deal structuring in order to develop an initial financial model. The transaction will be discussed in weekly meetings amongst the entire fund management team as well as in ongoing discussions amongst the acquisition team.

Following these discussions and meetings, an initial proposal along with the initial financial model is presented to the Investment Committee in the form of a Preliminary Investment Committee Memorandum. The Preliminary Memo is reviewed in a formal meeting, in which the fund management team "pitches" the investment to the Committee. The Committee evaluates the investment objectively, and is responsible for identifying many of the risks and potential difficulties that might not have been considered by the fund management team or reflected in the financial model. The Preliminary Memo includes a recommendation to the Committee to approve a due diligence budget necessary to take the transaction to the next level.

Investments receiving initial approval from the Committee are pursued by the fund management team, which conducts further due diligence. Senior management, fund management professionals and the in-house legal team work as a cohesive unit in the decision making process. The Memo is continually reviewed and updated, in an effort to finalize the terms of the acquisition and financing. Assuming that the acquisition proposal is accepted by the seller, JER typically enters into a letter of intent which gives it an exclusivity period to complete its due diligence. JER then proceeds with its final due diligence and makes adjustments to the Memo in preparation for final investment approval.

The final approval process gives Committee members another opportunity to review the terms of the transaction. The Committee then renders its final decision and approves or denies the investment recommendation. Assuming approval is given and that final due diligence sign-off and financing commitments are received, JER then proceeds with the execution of the purchase agreement. The fund management team then moves forward to close the transaction.

41. Who makes the final decision to invest? Under what circumstances would you decline an investment?

All final decisions to invest are made by JER's Investment Committee. To date, all decisions to invest have been unanimous. An investment would be declined if it did not meet JER Fund III's targeted return or risk profile.

42. Describe how post-investment decisions related to the investment will be conducted.

JER's asset managers are actively involved during all stages of any investment, including valuation and due diligence. Throughout the investment process, both the acquisitions team and the asset management team work together to formulate a strategic positioning plan for the possible investment and to determine viable exit options upon disposition.

As with potential investments, JER employs a rigorous decision making process with regard to asset management issues. Significant decisions on investment issues such as sale, refinancing, capital expenditures and significant leases are presented to the Investment Committee by the asset management team. This recommendation includes a qualitative analysis of the transaction as well as variance analysis compared to the business plan and compared to the underwriting for the transaction. The transaction's effect on the overall fund performance is carefully measured and evaluated. Similar to decisions involving new investments, the JER Investment Committee renders a final decision, either approving or denying recommendations involving investments under management.

43. How is the due diligence process documented?

Please see answer to question 40. Investment Committee memos contain a comprehensive analysis of the entire due diligence process in written form. Additionally, JER maintains detailed minutes of all Investment Committee meetings.

44. With foreign transactions, will your firm conduct due diligence to the same level of thoroughness as on domestic investments? How will this be handled? (If applicable)

Yes. As it relates to foreign transactions, JER will conduct the same level of due diligence as on domestic investments, including due diligence related to specific market issues such as foreign taxes, currency and hedging. JER maintains offices in London, Paris and Mexico City that operate in conjunction with JER's U.S. operations to conduct its extensive due diligence.

JER may enter into joint ventures with established local operators and partners to access select local real estate markets. Leveraging local knowledge and operating capability provides JER with platforms for investments in many markets with partners sharing JER's goals and objectives. In addition to providing equity capital, JER offers its partners structuring expertise, portfolio and corporate underwriting discipline and operating experience, which, in turn, provides these partners with competitive advantages in their own markets. Local partners help source off-market transactions, provide competitive market information, establish local service provider relationships and work with JER to continually reduce risk in investments.

45. What portions of the due diligence process does your firm outsource or subcontract, (e.g. legal, audit)? Please describe.

As a fully integrated investment management firm, JER typically performs most due diligence analyses internally. Outside resources are used on a supplementary basis where local expertise or specific industry expertise is helpful to fully evaluate the investment. For example, JER will engage external consultants for: title and survey matters, site-specific environmental matters, and highly specialized examinations of physical condition (if warranted). JER has internal legal counsel and internal due diligence team members with engineering and construction backgrounds, and often are able to review these matters internally or closely evaluate the recommendations of outside consultants. Depending on the particular investment, JER might also engage industry or demographic consultants to supply additional, specifically focused, information.

Negotiation

46. Describe the key considerations and deal points in negotiating the pricing, terms, conditions, representations and warranties of an investment.

JER's key considerations include:

- **Risk-Weighted Returns.** JER thoroughly underwrites all forms of risk and prices potential investments according to the perceived risk.
- **Risk Mitigation.** JER's mitigates risk through contract provisions such as control, subordination of partner equity, estoppels, buy-sell provisions, deferred purchase prices, non-recourse debt and the like.
- **Reward Maximization.** Financial terms, partner incentives (such as promotes) and fees are negotiated with the goal of maximizing returns to JER.
- **Historical Performance.** The past performance of an asset or potential partner is investigated in detail, and both seller and partner representations and warranties are required to insure the accuracy of the past performance and of due diligence information acquired.
- **Viability of Partner.** The partner's ability to close and to perform their obligations going forward is investigated early in the negotiation process.
- **Asset Specific Issues.** Considerations including zoning, tenant relationships, deferred maintenance, physical obsolescence and the potential for environmental hazards, floods, earthquakes and building failures are priced into every investment.

47. Do you conduct investment negotiations in-house, and to what degree do you use outside counsel in the negotiation process?

JER conducts all investment negotiations internally. When necessary, JER augments its in-house expertise with outside counsel to insure that it has the specific knowledge required for a particular asset, market, or investment type. For example, in negotiating hotel management contracts, JER engages outside counsel with specific hotel management contract expertise. Daniel Ward, Senior Managing Director and General Counsel, is responsible for all legal matters involving JER's investments.

48. What are the qualifications of the person(s) responsible for investment negotiations and who is responsible?

All JER officers, from Vice President to CIO, take part in investment negotiations; however, specific negotiation authority depends on the nature of the investment. Additionally, all key terms of an investment are subject to the approval of the JER Investment Committee and are presented to the committee through Investment Committee memorandums.

Please see **Exhibit B** for management bios.

49. How many times in the last three years has the firm discontinued interest due to negotiation of terms and/or pricing

JER is highly selective when entering into final investment negotiations. Once JER has entered the final negotiation stage, virtually all investments reach closure. Nevertheless, there have been some instances in which investments do not close due to new facts or market conditions that have arisen. In the past three years, JER has discontinued interest at the final negotiation stage on approximately four to six occasions due specifically to terms and/or pricing.

50. Provide specific examples of contract provisions your firm has incorporated in contracts to protect investments.

Although many of the provisions that JER incorporates into contracts are specific to a particular deal, examples of provisions that JER often strives to incorporate include:

- **Subordination of Partner and Third Party Equity.** In order to assure alignment of interests, the operating partner's equity and promote is subordinate to a JER return on and return of equity. Further, development and other fees may be subordinated to specific operating hurdles.
- **Control.** JER expects to obtain outright control for all significant economic, operational and capital decisions, including disposition. JER will also incorporate a buy/sell provision to increase control or to facilitate disposition.
- **Personal Recourse.** JER may look for partners to provide personal recourse for specific performance obligations (proper conduct, etc.).
- **Limited Recourse as Borrowers.** With respect to specific asset financing (where JER is the borrower), JER typically strives to limit lender recourse to that specific asset.
- **Clawbacks.** In some instances, JER has obtained clawback rights under which our partner would have to re-pay the partnership for incentive-based distributions if projected returns were not actually realized.
- **Deferred Payments.** In negotiating management or development agreements, JER typically strives to include provisions to defer the management or development fees until specific hurdles are met.
- **Net Leases.** JER often negotiates net leases with tenants to reduce risk, specifically in asset classes with significant operating risks, such as hospitality and senior housing.
- **Escrows/Reserves.** In negotiating contracts where JER acts as a lender, JER typically requires the inclusion of an escrow account to cover anticipated operating expenses and interest.
- **Cross-collateralization.** In the negotiating joint venture relationships where JER expects to invest in multiple assets, the joint venture partner's financial incentives on any asset are tied to the performance of the overall portfolio rather than the particular asset.

Documentation and Closing

51. Describe the process used in the documentation and closing of investments.

Ordinarily, JER will first conduct preliminary negotiations and advance the transaction to the point of an executed, but mutually non-binding, letter of intent. In the loan context, this step would be represented by the issuance and acceptance of a loan commitment. Once the essential deal terms have thus been identified and conceptually approved by both sides, a purchase agreement (or loan agreement, as applicable) will be negotiated and signed. Frequently, the purchase agreement (or loan agreement) will contain, as exhibits, forms of the closing documents that are to be executed at the actual closing (e.g., deeds, bills of sale, or promissory notes, mortgages, etc.). In the purchase situation, the next step would be for the buyer to complete its due diligence analysis, go "at-risk" on the transaction, and proceed to closing.

52. What portions of the documentation and closing process does your firm outsource or subcontract, (e.g. legal, audit)? Please describe.

JER generally does not use significant outside resources until after the letter of intent (or loan commitment) has been signed. JER usually engages outside counsel for the documentation and closing of real estate and loan investments, and the documentation of joint venture relations. JER's internal legal staff works closely with outside counsel in these matters throughout the process. JER internally prepares entity formation and governing documents for JER's wholly-owned affiliates.

Exiting/Liquidity

53. How does your firm plan for liquidity in real estate investments?

As part of its disciplined investment strategy, JER identifies multiple exit strategies for its investments during the initial due diligence process. Once an investment is made, additional avenues for disposition are continuously evaluated. For example, when JER purchased the triple-net leased retail portfolio, Brauvin, for JER Fund I and JER Fund II, the original business plan called for an orderly liquidation of assets on an individual basis. JER successfully pursued this strategy, selling nearly 70% of the assets, at which time, JER determined that a bulk sale of the remaining 30% of the assets was achievable and more accretive to the investment's returns. JER is currently in the process of finalizing the bulk sale of the remaining assets and expects the transaction to close in the coming weeks.

54. How many investments has your firm managed through to disposition or complete liquidity?

In general, funds managed by JER have been highly liquid with an average holding period of 3.2 years for realized investments through 2003 (for JER Fund I and JER Fund II). With respect to

JER Fund I, 44 investments out of 53 investments have been fully and partially realized¹; with respect to JER Fund II, 18 investments of 45 investments have been fully and partially realized. Please see Exhibit E for a listing of all investments made by JER Fund I and JER Fund II.

Both JER Fund I and JER Fund II have distributed back to investors significant capital and profits. JER Fund I, for example, just three years after its commitment period, has fully returned 117% of the total capital called. JER Fund II, similarly, has returned 49% of the total capital called as of December 31, 2003, less than 12 months after the expiration of its commitment period.

Monitoring, Reporting and Adding Value

55. What observer/directorship rights does the partnership have in a typical investment?

As JER's primary focus is on direct real estate investments, there are typically no observer/directorship issues. In the event JER enters into a joint venture with an operating partner, JER expects to maintain control over major investment decisions.

56. What does your firm do to add value to the investments after they are made? Please provide an example of how your firm's active participation enhances investor value once an investment is made.

After closing, JER aggressively adds value through a combination of proactive leasing, refinancing, core asset redevelopment and non-core asset disposition. JER's strength lies in its ability to pursue a wide variety of real estate opportunities and apply its value-added approach to investments in single assets, asset portfolios, operating companies, loan portfolios, as well as a number of other investment opportunities. JER closely monitors its acquisitions of operating companies and continuously recapitalizes and redefines management's operating objectives. With real estate loan transactions, JER uses its expertise to make situational decisions on whether to foreclose upon or restructure sub-performing or non-performing loans. On the property management side, the asset management team works to implement plans for strategic positioning or repositioning of a property. The asset management team looks for opportunities to add value to the asset both for leasing purposes and disposition purposes, as well as taking steps to minimize risk by securing cash flows for all of its real estate investments. The asset managers also play a key role in the disposition process for each investment. JER fully utilizes its resources and expertise to formulate the best possible exit strategy for maximizing return and achieving investment objectives. The SASCO 1997-N1 (51%) example presented below illustrates JER's active participation in asset management activities.

¹ Fully realized are those investments that no longer have remaining assets except for, if any, de minimis assets. Partially realized are those investments that have distributed cash in an amount equal to capital contributions plus 33% or more of total projected profits, as of December 31, 2003.

SASCO 1997-N1 (51%):

In August 1997, JER Fund I purchased a 51% controlling interest in a geographically diverse, sub-performing and REO portfolio comprised of 178 assets, known as SASCO 1997-N1 (51%). The total purchase price was \$420 million, financed by total equity of \$65 million and by \$355 million in structured bonds. JER Fund I's share of the equity was \$33 million. Base case underwriting projected total disposition proceeds of \$482 million resulting in projected net equity gains of approximately \$78 million, generating a 40% leveraged IRR with \$42 million in profit.

Overall, the portfolio exceeded original expectations, with more than 50% of the assets resolved or sold within the first year of ownership. Although the liquidation of a select few assets was longer than original underwriting, JER's aggressive asset management was the primary reason the investment achieved a gross leveraged return of 74% and profits of \$59 million.

57. How frequently is your firm in contact with the management at the properties your firm has invested in?

JER works with its sales and leasing agents on a regular basis and meets regularly with its numerous local operating partners.

58. Describe the methods employed to determine investment valuations in reporting to investors.

Financial statements of JER Fund I, JER Fund II and JER Europe Fund I are presented using fair value basis of accounting, as required by the limited partnership agreements of each of the funds. Accordingly, all assets and liabilities are either "marked up" or "marked down" as determined on a periodic basis with any resulting change in value being recorded as "unrealized gains" or "unrealized losses" in the income statement of the funds, respectively. The "unrealized gains" or "unrealized losses" are then recognized as net changes to the asset basis on the balance sheet. For JER's complete valuation policy, please review the Fair Basis Determination of Investments Policy Statement in Exhibit G.

59. Has your firm ever managed an investment in crisis? Please give a brief description.

In April 2002, JER Fund II acquired a portfolio of 43 assisted living facilities located in 10 states for \$98.4 million (the "ALF I Portfolio"). The portfolio is master leased through 2020 on a net lease basis to Alterra Healthcare Corporation ("Alterra"), a publicly-held operator of 408 assisted living facilities. JER contributed 75.0% of the equity, and Nationwide Health Properties ("NHP") contributed the remaining 25.0%. The portfolio was acquired from Meditrust (LaQuinta) in an off-market negotiated transaction with NHP. The portfolio consists of 1,407 assisted living units and was 82.1% occupied as of March 2002.

In October 2002, the JER/NHP Joint Venture purchased an additional portfolio of 9 assisted living facilities directly from Alterra in an off-market transaction for \$28.8 million (the "ALF II Portfolio"). The portfolio consists of 311 assisted living units and was 87.8% occupied as of October 2002.

JER's initial underwriting of the ALF Portfolios anticipated the likelihood of Alterra's filing for Chapter 11. The uncertainty surrounding Alterra was a major factor in JER achieving attractive pricing and lease terms at the time of acquisition for both portfolios.

During the due diligence process, JER and NHP analyzed a number of potential scenarios that could arise from the bankruptcy and factored them into the underwriting of the transactions. As part of this analysis, JER and NHP worked together to create a list of alternate operators for each of the properties and believed that such a plan could be put in place with minimal disruptions at the property level.

As expected, Alterra filed its prepackaged Chapter 11 reorganization on January 22, 2003. Over the course of the reorganization, JER constantly monitored the progress of the bankruptcy proceedings and closely followed the performance of the assets.

In September 2003, Alterra began to negotiate with a joint venture formed by Fortress Investment Group LLC, Emeritus Corporation, and NW Select LLC, whereby the joint venture proposed to invest \$76 million in Alterra to help the company emerge from bankruptcy. As part of the restructuring however, the Fortress-led joint venture sought to re-negotiate the lease agreements that Alterra had in place, including the master leases with JER.

To facilitate Alterra's emergence from bankruptcy and to insure affirmation of the lease, the JER/NHP joint venture agreed to negotiate potential amendments to the master lease agreements on the ALF portfolios. The negotiations with Alterra quickly became tense however, as Alterra and the Fortress-led joint venture sought to negotiate aggressive economic concessions, including reductions in the lease payments, by threatening to reject the leases.

In preparation for the negotiations, JER worked closely with NHP to conduct an asset-by-asset re-underwriting of the portfolio to assess the impacts of the proposed amendments as well as any changes in operating performance that may have resulted from the bankruptcy proceedings. The re-underwriting involved a team of six JER investment management professionals and included site visits, competitor property tours, management interviews, and detailed financial analyses.

Site visits and the overall re-underwriting confirmed that the assets had been well-maintained, competed well in their respective markets and would be attractive to other potential operators. This confirmation of the value of the portfolio affirmed JER's resolve to negotiate only non-economic lease amendments, as the JER/NHP venture was confident that it could take back the portfolio and re-lease the properties if the negotiations failed.

Through multiple rounds of negotiations with Alterra, JER's business and in-house legal teams worked closely with their respective counterparts at NHP, and the JER/NHP venture collectively conveyed its resolve to maintain the lease rate. The JER/NHP negotiation team's efforts resulted in negotiated lease amendments that were limited and non-financial.

Interviews with property managers during JER and NHP's re-underwriting also confirmed that a successful emergence from bankruptcy would improve the operating performance of the portfolio, as Alterra's bankruptcy was impacting individual facilities' marketing efforts for new residents. In December 2003, Alterra emerged from bankruptcy after closing on the joint venture's \$76 million investment. In addition to improving the marketability of the facilities, the restructuring reduced the company's financial leverage and simplified its capital structure.

As a result of the JER's aggressive negotiations skills and active asset management, the ALF I Portfolio is targeted to return a 23.9% IRR and \$34.0 million in profits, and the ALF II Portfolio is targeted to return a 27.2% leveraged IRR and \$8.8 million in profits.

60. What methods does your firm employ to detect early problems in investments?

JER leverages its extensive experience as an asset manager to proactively monitor and manage the performance of its investments. JER stays in close contact with local operating partners, and generally visits each of its assets under management at least once per quarter. JER also maintains close relationships and visits with local brokers and other operators to remain aware of changing market conditions.

Every quarter, as well as upon the occurrence of any significant event (e.g., a large tenant move-out, bankruptcy, etc.), JER formally re-evaluates the investment's business plan and major assumptions, through a "bottom-up" analysis. In this analysis JER recalculates asset level cash flows based on the impact of any changes in projected revenues, expenses, capital values, etc. In such analysis both property level variables (lease rollover, capital expenditures, tenant improvement costs, etc.) and macro level variables (including the direction of cap rates, vacancy rates, market comparables, etc.) are assessed and incorporated. The asset manager is primarily responsible for providing all the relevant market data for the analysis in order to update the disposition strategy and support recommended assumptions.

Partnership Reporting

61. Briefly describe your internal accounting capabilities and your abilities to fulfill the necessary reporting requirements of an institutional client.

JER Partners has the necessary and suitable in-house accounting capabilities to support its investment management activities and fulfill its reporting requirements. David Kay is the Global Chief Financial Officer overseeing finance and accounting world-wide. The majority of the accounting staff are Certified Public Accountants and several hold advanced degrees in Finance and

Tax. The professional orientation of the group provides an environment of strong internal controls and accountability. Dual controls and disciplined review processes are also in place to ensure that the financial statements are prepared in accordance with generally accepted accounting principles applied on a consistent basis.

JER's finance and accounting department shares responsibility with the legal department for ensuring that the terms of the Limited Partnership agreements governing the investments are complied with. JER maintains a Policies and Procedures manual, which outlines procedures to be followed to enforce the company's policies.

To facilitate Limited Partners' questions, JER established a website where up-to-date information is available. Clyde Robinson, Director of Investor Relations and other members of the team are accessible to discuss the status of the portfolio.

Investors in JER funds receive highly informative, detailed, and fully transparent reporting from the General Partner on a timely basis. Representative examples of investor reporting are contained in Exhibit F and summarized below.

1. Quarterly Performance Report – This report describes major acquisition and disposition activity, returns and other performance measures, and snapshots of the current portfolio in terms of geographic and asset type exposure. This report is typically published 45 days after quarter end. The JER Fund I and JER Fund II 4th quarter 2003 reports are included in Exhibit F.

2. Annual Audited Financial Statements – The funds' financial statements are audited by Ernst and Young. Financial statements are typically provided on or before March 31st annually. Financial statements for JER Fund I and JER Fund II as of December 31, 2003 are included in Exhibit D.

3. Semi-Annual Asset Summaries – JER prides itself on its extensive, fully transparent reporting to investors, the hallmark of which is detailed asset summaries. This report contains summary and detailed analytical information both at the fund level and for each individual investment. Each investment has a summary of the investment thesis, recent major activity, projected returns, risk factors, and sensitivity analysis, and multiple performance metrics. Due to the size of the report (70 + pages), it is not reproduced here, but a sample for the Twinbrook portfolio is contained in Exhibit F. If interested, we can provide a full copy of the most recently published asset summary book.

62. Is your firm flexible in generating investor requested reports?

Yes. JER provides specific investor reports to many existing investors in the JER funds. Samples of some of the investor specific reports that JER prepares are included in Exhibit F.

63. Attach a sample of the year-end financial report your firm prepares for investors (tab as exhibit F).

Please see Exhibit D for copies of the Annual Reports for JER Funds I and II for the year ended December 31, 2003. Also included in Exhibit F are samples of some of the investor specific reports that are prepared.

64. Describe your firm's information management system. Please provide specifics on hardware and software.

JER has created a comprehensive deal tracking database that is used to monitor all transactions that JER has considered for investment as well as other transactions that JER has passed on. JER uses this data to monitor the performance of these transactions and to compare actual performance to JER's initial deal underwriting and structuring assumptions. This reflective process allows JER to constantly improve the investment underwriting process and learn not only from JER investments, but also from the successes and mistakes of others.

From a modeling perspective, both JER's acquisitions team and CMBS team have created proprietary financial models that are used in the underwriting process for all investments. These models allow JER to run sensitivity analyses on their assumptions, which helps to predict the range of returns possible in a variety of market scenarios. JER constantly refines these models to incorporate lessons learned from each and every transaction that is considered.

Technology Overview

All JER offices are connected via wide area network (WAN). The WAN exists as encrypted tunnels through the Internet, using the latest algorithms to balance security and performance. The WAN provides private, real-time access to information stored anywhere in the organization and supports connectivity to external service bureaus. Several dozen servers provide networked file and print resources, database services, and communication gateway services to clients across this network. Direct access is available for users in the McLean, VA, North Haven, CT and London, UK sites, with remote access provided for smaller offices and roaming internet users. Remote access is offered using Citrix MetaFrame terminal services which provide a remote desktop presentation to the user and eliminate delays inherent to low-bandwidth connections by processing all user operations on the same network as the back-end servers. The only traffic to traverse the inter-network is screen data, mouse movements and keystrokes. Remote access to our Microsoft Exchange-based messaging system is provided via Secure Web interface (SSL) as well as various client protocols including SMTP for sending messages, POP3 and IMAP4 for downloading lists of waiting messages and their contents, and LDAP for checking server-based employee directories.

Company-wide, IT supports over 250 PC workstations, with most running an Intel Pentium III 1Ghz or higher processors. Each office has implemented several levels of physical and software security. Full backup of data files is performed nightly using Computer Associates ARCserve.

Backup tapes are maintained using a Grandfather, Father, Son scheme such that Daily tapes are rotated every three weeks, end of week Friday tapes are rotated every five weeks, and month-end tapes are retained offsite. Each JER office site is hardware and software compatible, providing a disaster recovery option via the transfer of off-site backup tapes to any office. TrackIt! provides hardware and software inventory maintenance of IT systems. Trend Micro's NeatSuite provides antiviral protection on all JER workstations, servers, and messaging gateways, while Postini filters unwanted content from email and web traffic. Servers and workstations are kept up to date using Microsoft's Software Update Services to automatically deploy OS and core application patches as they become available and are approved by IT staff. Remote access to applications and network services is provided by secure roaming IPSEC tunneling, Citrix MetaFrame terminal servers and remote messaging services.

Users operate in a PC-based environment utilizing Windows-based applications including the MS Windows XP suite of applications. An integrated electronic mail system based on Exchange 2000 and 5.5 servers allows users to easily send and receive messages or files throughout the company and the internet. IIS-based Outlook web access provides SSL-secured access to email from anywhere on the Internet.

Specialized software is employed such as Argus, RealBridge, Bridgeway, and Bloomberg. Timberline is used for the central accounting system.

ARGUS – Argus is the industry standard for cash flow analysis. ARGUS models all aspects of the real estate life cycle — from initial acquisition, through development, to lease up, and disposition. This software is a mainstay for forecasting the discounted cash flows of any income-generating property. ARGUS can also be used to value assets, view partnership structures and analyze debt financing.

RealBridge – RealBridge is a powerful modeling tool for developing spreadsheet-based business models and eliminating the need for hard-coded links, macros or query language skills. It simplifies the process of connecting spreadsheets to databases.

Bridgeway - Secretariat is the premier corporate secretary tool for maintaining and reporting on all the information in corporate minute books.

Timberline - Accounting and management information computer software for the construction and property management industries.

Fee Proposal

65. Outline the fee structure under which you are prepared to contract with TRS. Is it negotiable?

Management Fee:

- 0.875% for Commitments over \$150 million
- 1.0% for Commitments of \$100 million but less than \$150 million
- 1.25% for Commitments of \$75 million but less than \$100 million
- 1.5% for Commitments of less than \$75 million.

Investment Management Fees will be based on the total Commitment amount during the Commitment Period. After the expiration of the commitment period, management fees are paid on the funded Commitment allocated to remaining Investments. Management fees paid are included in the capital commitment amounts.

Distribution Waterfall:

JER Fund III's net proceeds from operations, sales or refinancings attributable to each Investment will first be divided among the Partners pro rata according to their respective percentage interests with respect to such Investment and then distributed as between a Limited Partner and the General Partner in the following order of priority:

- (a) First, 100% to such Limited Partner until such Limited Partner has received distributions equal to:
 - (i) such Limited Partner's Capital Contributions with respect to such Investment and all other realized Investments;
 - (ii) such Limited Partner's pro rata share of all net losses from write-downs in respect of unrealized Investments; and
 - (iii) that portion of such Limited Partner's Direct Payments and Capital Contributions for Organizational Expenses, Placement Fees (as defined herein), Management Fees and Partnership Expenses allocable to realized Investments.
- (b) Second, 100% to such Limited Partner until such Limited Partner achieves a 10% internal rate of return on the amounts described in (a) above.
- (c) Third, 50% to such Limited Partner and 50% to the General Partner until such time as the General Partner has received as its carried interest 20% of the aggregate distributions made in respect of such Limited Partner under paragraph (b) above and under this paragraph (c).
- (d) Thereafter, 80% to such Limited Partner and 20% to the General Partner.

Distributions relating to the partial disposition of Investments will be subject to the above formula, with that portion of the Investment disposed of treated as a separate Investment from the portion retained by JER Fund III, and prior distributions with respect thereto shall be divided between such Investments on a pro rata basis.

JER will contact the TRS staff to discuss negotiable terms.

66. How does the fee structure stipulated in the above answer compare to your other clients' fee structure?

The fee structure stipulated in the above answer is the standard fee structure for investors. However, there are a limited number of exceptions to this structure for a limited number of investors. These exceptions are contained in side letters and will be furnished to TRS upon request.

Other

67. Include any additional information that TRS should be aware of to complete the due diligence process.

To date, JER Fund III has held three closings, with 27 investors and capital commitments of \$440 million. Approximately 75% of these commitments have come from existing investors in JER's prior funds, while the other 25% are from new investors such as Boeing, TIAA-CREF, and DePauw University. In addition, JER has received more than \$60 million in verbal commitments, bringing Fund III past \$500 million. Based on further indications of interest we are receiving, we expect to hit our target and close out the fund at \$750 million.

The JER team has closed five investments in JER Fund III, of which any investors coming into subsequent closings can get a "free preview." Please see **Exhibit H** for summaries of the five investments that JER Fund III has closed on, representing a total purchase price of \$113 million and fund equity of \$59 million. The weighted average gross IRR of these investments is projected to be 23%.

EXHIBIT A – Reference Questionnaire Authorization Letters & Reference Information



April 30, 2004

Mr. Tom Mulvin
Investment Officer
Virginia Retirement System
1200 East Main Street
Richmond, VA 23219

Re: Reference Questionnaire Authorization Letter

Dear Tom:

J. E. Robert Company, Inc. ("JER") is currently negotiating with the Teachers' Retirement System of the State of Illinois ("TRS") with regard to a potential investment by TRS in JER Real Estate Partners III, L.P. ("JER Fund III"). TRS is conducting its due diligence with regard to JER and JER Fund III. Through this written authorization, JER hereby authorizes Virginia Retirement System ("VRS") and you to release any facts and information you and VRS may have concerning JER, its principals, employees and agents, to TRS.

A copy of this authorization may be used as if it were an original. Thank you for your assistance.

Sincerely,

A handwritten signature in cursive script that reads "Daniel T. Ward".

Daniel T. Ward
Senior Managing Director and General Counsel

cc: Mike Bartletti
Director of Real Estate
Teachers' Retirement System of the State of Illinois



April 30, 2004

Mr. Larry Owen
Managing Director
Stanford Management Company
2770 Sand Hill Rd
Menlo Park, CA 94025

Re: Reference Questionnaire Authorization Letter

Dear Larry:

J. E. Robert Company, Inc. ("JER") is currently negotiating with the Teachers' Retirement System of the State of Illinois ("TRS") with regard to a potential investment by TRS in JER Real Estate Partners III, L.P. ("JER Fund III"). TRS is conducting its due diligence with regard to JER and JER Fund III. Through this written authorization, JER hereby authorizes The Board of Trustees of the Leland Stanford Junior University ("Stanford") and you to release any facts and information you and Stanford may have concerning JER, its principals, employees and agents, to TRS.

A copy of this authorization may be used as if it were an original. Thank you for your assistance.

Sincerely,

A handwritten signature in cursive script that reads "Daniel T. Ward".

Daniel T. Ward
Senior Managing Director and General Counsel

cc: Mike Bartletti
Director of Real Estate
Teachers' Retirement System of the State of Illinois



April 30, 2004

Mr. Howard Fields
Portfolio Manager
Allstate Insurance Company
3075 Sanders Rd, #G3B
Northbrook, IL 60062-7125

Re: Reference Questionnaire Authorization Letter

Dear Howard:

J. E. Robert Company, Inc. ("JER") is currently negotiating with the Teachers' Retirement System of the State of Illinois ("TRS") with regard to a potential investment by TRS in JER Real Estate Partners III, L.P. ("JER Fund III"). TRS is conducting its due diligence with regard to JER and JER Fund III. Through this written authorization, JER hereby authorizes Allstate Insurance Company ("Allstate") and you to release any facts and information you and Allstate may have concerning JER, its principals, employees and agents, to TRS.

A copy of this authorization may be used as if it were an original. Thank you for your assistance.

Sincerely,

A handwritten signature in cursive script that reads "Daniel T. Ward".

Daniel T. Ward
Senior Managing Director and General Counsel

cc: Mike Bartletti
Director of Real Estate
Teachers' Retirement System of the State of Illinois

Investors

Thomas Mulvin
Investment Officer
Virginia Retirement System
1111 E. Main Street
4th Floor
Richmond, VA 23219-2500

(804) 344-3111 business

tmulvin@vrs.state.va.us

Larry Owen
Managing Director
Stanford Management Co.
2770 Sand Hill Road
Menlo Park, CA 94025

(650) 926-0209 business

larry.owen@stanford.edu

Carla McGuire
Chief Investment Officer
DePauw University
313 S. Locust Street
Greencastle, IN 46135

(765) 658-4800 business

cmcguire@depauw.edu

Garrett McDonald
Principal Investment Officer
The World Bank
Room MC7-163
1818 H Street, NW
Washington, DC 20433-0001

(202) 473-4013 business

gmcdonald@worldbank.org

Anthony Fusco
President, Real Estate
Olayan America Corporation
505 Park Avenue
11th Floor
New York, NY 10022

(212) 750-4800 business

a.fusco@olayangroup.com

Mel Williams
Investment Director
UNC at Chapel Hill Foundation
Investment Fund, Inc.
308 W. Rosemary Street, Suite 203

(919) 962-2002 business

mwilliams@unc.edu

Mark Talgo
Managing Director
New York Life Insurance Company
51 Madison Avenue
9th Floor
New York, NY 10010-1655

(212) 576-7314 business

mtalgo@nylim.com

Banking Relationships

Craig Jones
Managing Director
Red Capital Markets, Inc.
150 E. Gay Street
22nd Floor
Columbus, Ohio 43215

(614) 857-1661 business

csjones@redcapitalgroup.com

Jerry Lucey
Vice President
GMAC
88 Pine Street
21st Floor
New York, NY 10005

(212) 785-1100 ext. 224 business

jeremiah.lucey@gmaccm.com

Jonathan Strain
Managing Director
Morgan Stanley Dean Witter
1585 Broadway
3rd Floor
New York, NY 10036

(212) 761-2270 business

jonathan.strain@morganstanley.com

Business Partners

William Hickey
Executive Vice President
Lincoln Properties
1530 Wilson Boulevard
Suite 200
Arlington, VA 22209

(202) 513-6700 business

bhickey@lpc.com

Rocky Fried
Farallon
1 Maritime Plaza
Suite #1325
San Francisco, CA 94111

(415) 616-4741 business

rfried@faralloncapital.com

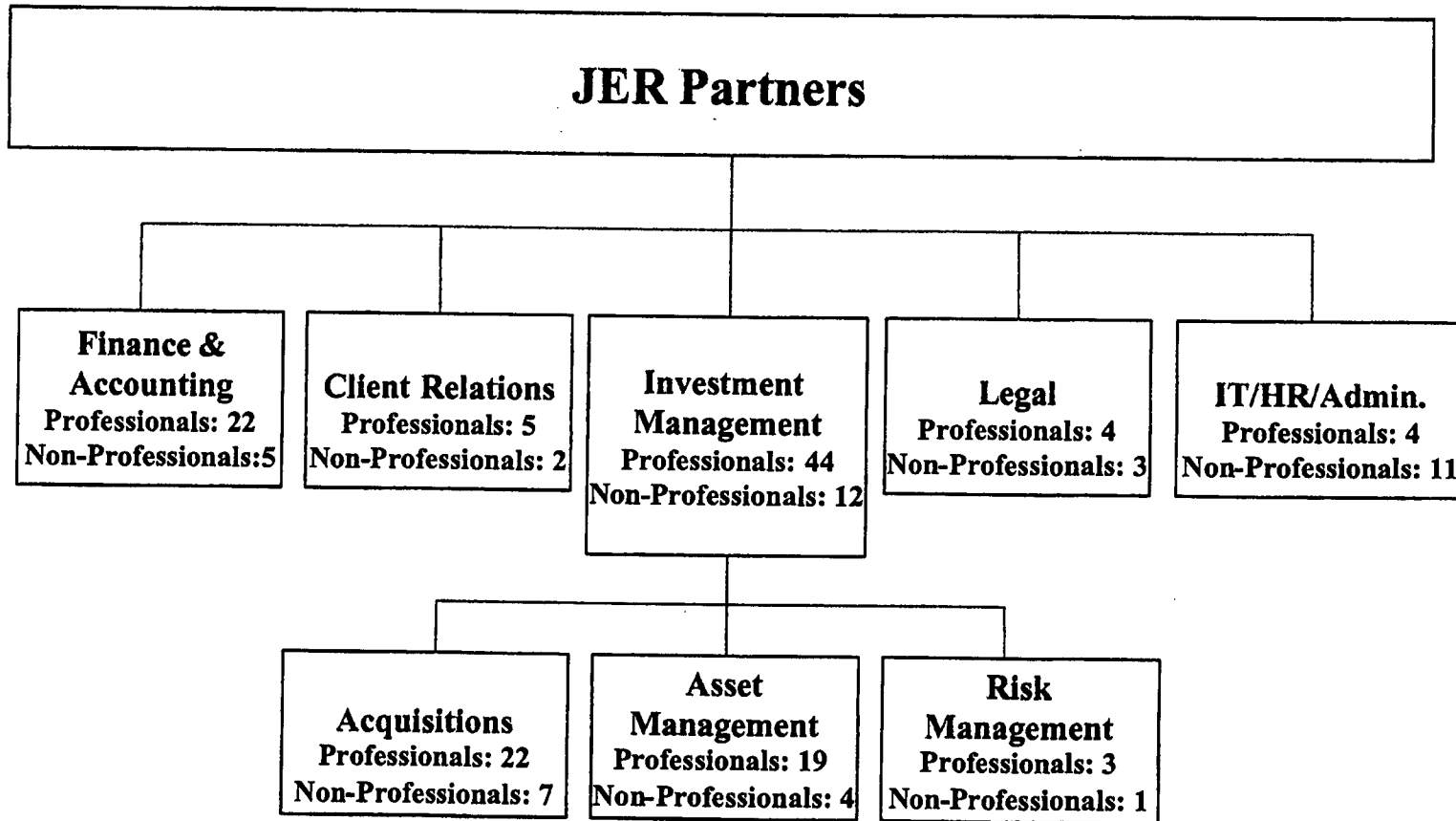
EXHIBIT B – JER Management Team

JER is a dedicated real estate investment and asset management firm with approximately 80 professionals in 7 offices across North America and Europe. JER is not simply a “deal shop” – it is a fully integrated operating company. In addition to real estate investment professionals that focus on the acquisition and management of real estate related assets, JER has full-time, “in house” legal, accounting, facilities, human resources and other administrative staff to support its investment management activities.

Senior Management					
Executive Officers	Title	Department			
Joseph E. Robert, Jr.*	Chairman & CEO	Executive Office			
Deborah Harmon*	President & CIO	Executive Office			
Malcolm Le May*	European President	Europe			
Cia Buckley*	Senior Managing Director	Fund Investment Management			
Gene McQuown*	Senior Managing Director	Fund Investment Management			
Daniel Ward*	Senior Managing Director	General Counsel			
Keith Belcher*	Managing Director	CMBS Investments			
David Kay*	Managing Director & CFO	Global Finance and Accounting			
Connie Parker	Managing Director	Global Administration			
Phil Vincent	Managing Director	Mexico			
Tae-Sik Yoon*	Managing Director	Portfolio Risk Management			
U.S. Officers			International Officers		
Brad Coburn	Director	Fund Investment Management	Alastair Bell	Director	European Fund Investment Mgt.
Paul Froning	Director	Fund Investment Management	Jon Hodnett	Director	European Fund Investment Mgt.
Alex Gilbert	Director	Fund Investment Management	Nathan Thompson	Director	European Fund Investment Mgt.
Terri Giaditta	Director	Human Resources	Marc de Chassey	Vice President	European Fund Investment Mgt.
Clyde Robinson	Director	Investor Relations	Claire Handley	Vice President	Legal
Gary Baron	Vice President	Facilities	Phillippe Manarin	Vice President	France
Jerry Best	Vice President	Legal	Sanjiv Raykundajia	Vice President	Finance
James Branch	Vice President	Information Technology	Candace Valunas	Vice President	European Fund Investment Mgt.
Tom Burdi	Vice President	Fund Investment Management	Martina Wüst	Vice President	Investor Relations
Bruce Cunningham	Vice President	Finance & Accounting			
Kari Doescher	Vice President	Finance & Accounting			
Richard Harkins	Vice President	Legal			
James Hubbard	Vice President	Finance & Accounting			
Debra Morgan	Vice President	CMBS Investments			
James Richards	Vice President	Fund Investment Management			
Susan Sloan	Vice President	Finance & Accounting			
Craig Smith	Vice President	Fund Investment Management			
Marc Venegas	Vice President	Fund Investment Management			

* Member of investment committee, which makes decisions on an unanimous basis

JER Partners Organizational Chart



Full Name	Title	Function	Year Started at Firm	Year Investment Career Began	Year Real Estate Career Began	Education
Mr. Joseph E. Robert, Jr.	Chairman and Chief Executive Officer	Mr. Robert is responsible for establishing the strategic direction of the firm. Mr. Robert develops and manages key relationships for transaction origination and capital sourcing.	1981	1977	1977	American University and Mount St. Mary's College
Ms. Deborah L. Harmon	President and Chief Investment Officer	Ms. Harmon has responsibility for overseeing all of JER's global investments.	1991	1982	1982	Johns Hopkins University, B.A., 1981; The Wharton School, University of Pennsylvania, MBA, 1987
Mr. Malcolm Le May	President, Europe	Mr. Le May has overall responsibility for the development of strategy and the management of operations across the UK and continental Europe. Le May's other main responsibilities will include the origination, sourcing and execution of transactions, the raising of capital and the further development of relationships with investors.	2003	1982	2003*	University of North Wales, Accounting and Business Studies, 1979
Ms. Cornelia C. Buckley	Senior Managing Director	Ms. Buckley oversees the North American fund investment management team and is responsible for both the acquisitions and asset management activities of JER's North American investments.	1997	1988	1988	Lafayette College, B.A. Economics, 1988; Columbia University, MBA Finance, 1993
Mr. Gene C. McQuown	Senior Managing Director	Mr. McQuown has senior responsibility for origination and is the executive director for transactions in North America and Europe.	1989	1980	1980	Louisiana State University, B.A., 1976; University of Dallas, MBA, 1997
Mr. Daniel T. Ward	Senior Managing Director - General Counsel	Mr. Ward is responsible for all legal matters involving investment structuring, document negotiation, transaction closings and capital raising activities for the JER funds.	1991	1980	1991	Villanova University, B.S. Accounting summa cum laude, 1979; The National Law Center George Washington University, J.D. with honors, 1982

* Investment banking experience in real estate commenced in 1983 and continued periodically until joining JER in 2003, at which time he has focused exclusively on real estate.

Mr. Keith W. Belcher	Managing Director – CMBS Investments	Mr. Belcher is responsible for all CMBS acquisitions made by the JER Funds and oversees the asset management of the underlying assets in such CMBS issuances assigned to JER as Special Servicer.	1991	1983	1983	Southern Methodist University, B.B.A Finance and B.A. Economics, 1982
Mr. David B. Kay	Managing Director and Chief Financial Officer	Mr. Kay oversees the financial and accounting practices of the J.E. Robert Companies.	2002	1989	1989	Southern Methodist University, B.S. Business, 1979
Mr. Tae-Sik Yoon	Managing Director - Portfolio Risk Management	Mr. Yoon has primary responsibility for performance reporting, risk management and debt capital financing with regard to JER Partners.	1999	1989	1994	Johns Hopkins University, B.A. Biology, 1989; Harvard Law School, J.D. 1994

JER MANAGEMENT TEAM

Senior Management Team

Joseph E. Robert, Jr., Chairman and Chief Executive Officer – Mr. Robert is founder, Chairman and Chief Executive Officer of the J.E. Robert Companies. Mr. Robert is responsible for establishing the strategic direction of the firm. Mr. Robert develops and manages key relationships for transaction origination and capital sourcing. Over the past several years, he has been actively involved in expanding JER's business to Europe and Mexico. Mr. Robert is a member of the JER Investment Committee.

In 1990, Mr. Robert founded Fight For Children which strives to create a brighter future for children by helping them access excellent education, healthcare and mentoring opportunities. This Washington based non-profit organization has raised more than \$52 million for over 140 organizations and programs including Big Brothers Big Sisters of the National Capital Area, Capital Gains, Children's National Medical Center, District of Columbia College Access Program, Junior Achievement, Latin America Youth Center, Mary's Center, Metropolitan Police Boys and Girls Clubs and the Washington Scholarship Fund, among others.

Mr. Robert served as Vice Chairman of the Board of the National Realty Committee, was a member of its Executive Committee and is a Founding Member of the Real Estate Roundtable.

Deborah L. Harmon, President and Chief Investment Officer – As President of JER and Chief Investment Officer of the Prior JER Funds, Ms. Harmon has responsibility for overseeing all of JER's global investments. Ms. Harmon is also responsible for global capital raising and coordinating marketing efforts for the JER funds. She is chairperson of the JER Investment Committee.

Ms. Harmon joined JER to build its direct investment business. A member of the executive team for the past twelve years, she oversaw JER's acquisition of \$7.4 billion of investment with a major international investment bank and was responsible for initiating, negotiating and closing the relationship. In addition, Ms. Harmon was instrumental in raising a total \$1.2 billion in capital for the Prior JER Funds.

Before joining JER, Ms. Harmon served as Managing Director of the Real Estate Finance Group at Banker's Trust Company, where she directed a ten-person team handling a \$2 billion portfolio of real estate developers and national corporations.

Ms. Harmon holds an M.B.A. from The Wharton School, University of Pennsylvania, and a B.A. from Johns Hopkins University. She is a member of the Wharton Real Estate Advisory Council, the Urban Land Institute, the National Realty Committee, the SAIS Advisory Council and the Washington, D.C., Chapter of the Young President's Organization. Ms. Harmon is also on the Board of Trustees for Sidwell Friends School and a member of Sidwell's Investment Committee.

Malcolm Le May, President – Europe – As President of JER Europe, Mr. Le May has responsibility for the development and execution of strategy and the management of operations across the UK and Continental Europe. Mr. Le May's other main responsibilities include the origination, sourcing and execution of transactions, the raising of capital and the further development of relationships with investors.

Mr. Le May is a member of JER's Global Investment Committee and the Executive Board. He also chairs JER's European Investment Committee.

Between 1990 and 1995, Mr. Le May worked for Barclays de Zoete Wedd (BZW) in New York, serving first as co-Head of US Investment Banking and then as Head of US Corporate and Investment Banking. In 1995 he became Vice-Chairman, Head of Corporate Finance, Region Europe, for UBS in London. He subsequently became Head of Investment Banking, Europe & Deputy Chief Executive, Europe. In 1998, Mr. Le May joined ING Barings, where he was Deputy Chief Executive and Global Head of Corporate and Institutional Finance. Prior to joining JER Partners in 2003, he worked for Morley Fund Management in London, where he served as Deputy Chief Executive with responsibility for the firm's business in the UK and Continental Europe, including the property and real estate sectors.

Mr. Le May is a chartered accountant and holds a degree in accounting and business studies from the University of North Wales.

Cornelia C. Buckley, Senior Managing Director – Fund Investment Management – Ms. Buckley serves as Senior Managing Director and head of all North American acquisitions and asset management for the Prior JER Funds as well as for all real estate investment funds sponsored by JER. Ms. Buckley is a member of the JER Investment Committee. She is responsible for sourcing, performing due diligence and closing attractive investment opportunities, as well as for the execution of the investment business plans. Before joining JER in 1997, Ms. Buckley spent over nine years at Bankers Trust, most recently as a Vice President in its Investment Banking Group and, prior to that, as a Vice President in its Real Estate Investment Banking Group. There, she managed the successful principal acquisition of over \$2 billion in real estate assets including distressed mortgage portfolios, operating company investments and structured debt investments.

Ms. Buckley received a B.A. in Economics from Lafayette College and an M.B.A. in Finance from Columbia University.

Gene C. McQuown, Senior Managing Director – Fund Investment Management – Gene McQuown managed JER's European operations for 4 years previous to Mr. Le May joining the firm and has subsequently returned to the U.S. where he will focus on investment management activities. Employed by JER since 1989, he has been actively involved in all aspects of asset management and investments, including non-real estate, real estate and related loan assets over the last 23 years. Mr. McQuown has overseen the management or investment in over \$16 billion in real estate and related loan assets over the last twelve years, on behalf of various investment partners, the FSLIC, the RTC and various private financial institutions, including management of three large "bad banks" named Vernon

Savings, University Savings and BanCreceer-Mexico, each with loans of \$2.1 billion, \$2.6 billion and \$4.5 billion, respectively, in distressed assets. Prior to focusing on international activities in 1999, he managed JER's domestic acquisition process for approximately six years, investing in over 85 transactions with a book value exceeding \$5 billion.

Mr. McQuown is a graduate of Louisiana State University where he obtained a B.A. degree. Mr. McQuown obtained an M.B.A. from the University of Dallas.

Daniel T. Ward, Senior Managing Director - General Counsel – Mr. Ward serves as the General Counsel for JER and is a member of the JER Investment Committee. Mr. Ward is responsible for all legal matters involving investment structuring, document negotiation, transaction closings and capital raising activities for the JER funds. After joining JER in 1991, Mr. Ward served as General Counsel for the JER/Goldman Sachs venture which acquired \$7.4 billion in sellers' book value in distressed U.S. real estate and loans from the RTC, insurance companies and banks in both sealed bid auctions and privately negotiated transactions from 1991 through 1996. While at JER, Mr. Ward has directed the closings for approximately 35 portfolios with over 2,100 assets and participated in the securitization of \$568 million of non-performing loans and \$270 million of performing loans.

Mr. Ward is a summa cum laude graduate of Villanova University where he obtained a B.S. degree in Accounting. He received a J.D. degree with honors from The National Law Center, George Washington University. Mr. Ward is a member of the Washington, D.C. Bar Association.

Keith W. Belcher, Managing Director – CMBS Investments – Mr. Belcher is responsible for all CMBS acquisitions made by the Prior JER Funds and JER Europe Fund II and oversees the asset management of the underlying assets in such CMBS issuances assigned to JER as Special Servicer. He is also a member of the JER Investment Committee. Under his direction, CMBS acquisitions have exceeded \$400 million in purchase price. Prior to his current role, Mr. Belcher managed the RTC Asset Management Contracts comprised of assets exceeding \$3.5 billion. Prior to joining JER in 1991, Mr. Belcher served as Senior Asset Manager for the Federal Asset Disposition Association (FADA), overseeing a non-performing loan portfolio in excess of \$800 million. Prior to FADA, Mr. Belcher was Vice President with InterFirst Bank in Dallas, responsible for a real estate portfolio averaging in excess of \$100 million including acquisition and construction loans. In total, Mr. Belcher has more than 20 years of diverse real estate experience including loan workout, REO management, construction lending and portfolio liquidation. Mr. Belcher is a graduate of Southern Methodist University with a B.B.A. degree in Finance and B.A. in Economics.

David B. Kay, Managing Director and Chief Financial Officer – Mr. Kay joined JER in June 2002 to oversee the financial and accounting practices of the J.E. Robert Companies, including the Prior JER Funds. He is also a member of the JER Investment Committee. Mr. Kay came from Arthur Andersen where he was the managing partner for the Mid-Atlantic region's accounting, auditing, risk consulting and financial outsourcing practices. Prior to this, he was the managing partner of Andersen's Pittsburgh office. Mr. Kay joined Andersen in 1979 and has extensive experience serving companies in

the real estate and financial services industry. This experience includes due diligence, IPO transactions, debt offerings, restructuring and workout consultation and assisting in complex financial and public reporting matters. He holds a B.S. in Business from Southern Methodist University, as well as a CPA.

Connie Simmons Parker, Managing Director – Global Administration – Ms. Parker oversees all global administrative matters including facilities, technology and human resources matters for JER. She currently supervises a professional staff of human resource managers, facilities personnel and technology professionals in the Company's global locations. In addition to her current responsibilities, her most recent activities in Western Europe and Latin America have included the sourcing, structuring and implementation of JER's global human infrastructure.

Prior to joining JER in 1994, Ms. Parker was Human Resource Director for Feld Entertainment Co., an international family entertainment company that owns and operates Ringling Bros. & Barnum and Bailey Circus, Walt Disney's World on Ice and other entertainment entities. She also spent nine years with Barnett Bank serving as Vice President and Regional Human Resource Manager and has served as Vice President and Corporate/Commercial Marketing Director for Broward and Dade Counties in the State of Florida.

Ms. Parker is currently pursuing a Ph.D. in Sociology with advanced studies in organizational development. Ms. Parker obtained an M.S.O.D. degree from American University in Washington, D.C. She is a graduate of the University of Florida School of Banking and Trinity College, where she received honors on her thesis work. She holds an advanced certificate from American University in International Human Resources. She is a member of the Society for Human Resource Management and has served on the board of directors of The Tampa Junior League, The Easter Seal Guild, SERVe (School Enrichment Resource Volunteers) and the Florida Center for Contemporary Arts.

Phillip D. Vincent, Managing Director – Mexico – Mr. Vincent serves as President and General Director of Fenix Administración de Activos ("Fenix"), JER's affiliate company in Mexico. Fenix is a Mexican real estate investment and management company jointly owned by Deutsche Bank and JER with offices in Mexico City, Monterrey and Culiacan. Fenix manages portfolios of loans and real estate on behalf of governmental, institutional and private investors. Fenix's portfolio under management consists of real estate loans and properties with a total value of over \$50 billion Mexican pesos (\$5 billion USD).

Prior to joining Fenix, Mr. Vincent served as Senior Vice President and Chief Administrative Officer for the JER/Goldman Sachs venture. Mr. Vincent has also previously served as President of Wilshire Financial Services Group Inc. (WFSG), publicly traded specialty finance and loan servicing company with over \$3.5 billion USD in real estate and loans under management, with offices in Portland, Los Angeles, London and Paris.

Mr. Vincent has over 20 years of banking, real estate and loan management experience, including management of several multi-billion dollar loan and real estate portfolios in the U.S., Europe and Mexico. He started his professional career as a bank examiner for the U.S. Comptroller of the

Currency and was a senior executive at major Texas Savings and Loan Association for ten years. He holds a Bachelors degree in Finance from Oklahoma State University, and earned a Certificate of Public Accountancy in 1984. Mr. Vincent also serves as a member of the Trust Committee of the Continental Financial Liquidating Trust, and is a member of the Board of Trustees of Casa Alianza, a charitable organization focused on the reintegration of Mexican street children to their families and communities.

Tae-Sik Yoon, Managing Director - Portfolio Risk Management – Mr. Yoon has primary responsibility for performance reporting, risk management and debt capital financing with regard to JER Partners. He is also a member of the JER Investment Committee. Mr. Yoon joined JER in January 1999, initially focused on acquisitions and investment management. Prior to joining JER, Mr. Yoon worked in the real estate investment banking group of Morgan Stanley & Co. in New York, NY and prior to that, was a corporate/securities attorney at the law firm of Williams & Connolly in Washington, DC.

Mr. Yoon received a B.A. in Biology from the John Hopkins University and a J.D. from Harvard Law School. He is a member of the bars of the District of Columbia, State of Maryland and U.S. Patent & Trademark Office.

U.S. Officers

Brad Coburn, Director – Fund Investment Management – Mr. Coburn has been with JER since October 1991. He began with JER as an analyst and has served primarily in asset management and acquisitions as well as having completed an international assignment in our Paris office. Brad was promoted to Vice President in 1999 and Director in 2003. Brad holds a B.A. from the University of Maryland. He has extensive experience in underwriting, financing and disposing of both debt and equity real estate investments and has managed over \$1 billion in joint venture relationships.

Paul Froning, Director – Fund Investment Management - Mr. Froning joined JER in the summer of 2000 and is a Director in the Fund Investment Management Group. As a principal, Mr. Froning has completed investments which aggregate more than \$1 billion in equity, in substantially all real estate sectors, over the last ten years. Prior to joining JER, Mr. Froning worked for 18 months as an advisor to Lazard Freres Real Estate Investors and was active in restructuring Lazard's significant investments in the assisted living sector. In 1998 Mr. Froning was a Vice President in the Global Capital Management Group of Security Capital Group Inc., and focused on the investment and management of Security Capital Preferred Growth, an investment vehicle with more than \$1 billion in equity commitments which acquired convertible and preferred investments in public and private real estate companies. During the early 1990's, Mr. Froning was an associate at both Lazard Freres Real Estate Investors and Salomon Brothers Inc. Mr. Froning received his B.A. from the University of Notre Dame.

Alexander Gilbert, Director – Fund Investment Management - Mr. Gilbert joined JER in the summer of 2003 and is a Director in the Fund Investment Management Group. Mr. Gilbert joined JER from Jones Lang LaSalle where he served as Executive Vice President. Previously, Mr. Gilbert was a Principal at William E. Simon & Sons Realty Investments. In this role, Mr. Gilbert was primarily responsible for the evaluation, acquisition and asset management of a \$1 billion real estate portfolio in the U.S. and Latin America. Mr. Gilbert has also served with the Investment Banking Division at Morgan Stanley & Company, where his principal assignments included the purchase of a ½ million square foot CBD office building as well as the securitization of a \$300 million loan portfolio. Mr. Gilbert also worked for LaSalle Partners as a Vice President where he was responsible for the property management and leasing of LaSalle's 7 million square foot, 16 building, third-party midtown Manhattan portfolio. Mr. Gilbert began his career with the United States Air Force, where he served as a Captain and Instructor and was responsible for conducting operational effectiveness for ally flying and support organizations. He was awarded "Squadron Instructor Pilot" for the year of 1991. Mr. Gilbert is a graduate of the United States Air Force Academy and received a Master in Business Administration from Harvard Business School in 1994.

Terri Giuditta, Director - Human Resources – Ms. Giuditta joined JER in 1992, as Human Resources Manager for the newly established J.E. Robert Company of New England. Ms. Giuditta was promoted to Vice President in 1997. Prior to JER, she was employed by the Bank of Boston Connecticut as a Vice President. She holds a BS in Business Management from Post College, an AS from Boston Chamberlain School of Retailing and holds a certification as a Senior Professional in Human Resources Management from the Society of Human Resources Management.

Clyde W. Robinson, Director - Investor Relations - Mr. Robinson is responsible for managing the investor relations, capital raising and marketing activities for JER. While at JER, Mr. Robinson has developed investor relationships, helped establish and manage on-going activities with JER's Global Advisory Board, launched the Company's redesigned web site and directed JER's media and public relations activities.

Mr. Robinson joined JER in 2000 from the Export-Import Bank of the United States where he served as Vice President and Counselor to the Chairman. His responsibilities included management, strategic marketing, client relations, and advising on major international financial transactions. Mr. Robinson previously served as Deputy Chief of Staff and as Deputy Assistant Secretary for Trade Development at the U.S. Department of Commerce. From 1993-2000, he focused on international business development in every region of the world. Prior to that, he practiced corporate law at Patton Boggs & Blow in Washington, D.C.

Mr. Robinson received a B.S. in Electrical Engineering from the University of Rochester and a J.D. from the University of Virginia, where he served on the editorial board of the Virginia Tax Review. Mr. Robinson is a member of the Pension Real Estate Association and the Washington, D.C. and Virginia Bar Associations.

Gary Baron, Vice President - Facilities - Mr. Baron has nineteen years of experience in facilities management, office administration, travel management and advertising sales. Mr. Baron joined JER Partners in 2001 and is responsible for all global facility locations for the company totaling over 63,000 square feet. Mr. Baron works closely in the decision making process for all policies and procedures involving corporate executive staff. To date Mr. Baron has automated systems, streamlined processes & procedures and initiated vendor market and financial studies that have saved the corporation in excess of \$597,000. Prior to his association with J. E. Robert Companies, he was Director of Administration & Facilities for Feld Entertainment from 1988 to 2001 where he planned and directed the relocation of the organization to the new facility in Vienna, VA in 1989. In his 13 year stay, Mr. Baron saved over \$4,800,000. Before working at Feld Entertainment, he served as General Manager for a legal company based in Washington, D.C.

Mr. Baron holds a B.A. degree from Mercyhurst College in Erie, PA in 1982. He is currently obtaining a designation to become a Facilities Management Administrator (FMA) with the BOMI Institute, and is currently a member of the National Association of Purchasing Managers (NAPM). He attends Executive Development Seminars and other BOMI course work study programs.

Jerry Best, Vice President - Legal - Mr. Best joined JER Partners in February 2002, as Vice President and Counsel. He has specialized in commercial real estate transactions since graduating from the University Of Virginia School Of Law in 1983. From 1983 until 1999, Mr. Best worked for the law firm of Hunton & Williams, where he represented various commercial real estate players, such as developers, owners, landlords, tenants, construction lenders, permanent lenders, equity investors, REITS, REMICs, governmental agencies and others. From 1999 until joining JER, he worked for The

Charles E. Smith Companies, representing both the publicly-traded Smith apartment REIT, which recently merged with Archstone to form the second largest apartment REIT in the nation, and the private office building REIT, which recently merged with Vornado to form one of the nation's largest office building REITs. Mr. Best's experience spans all the product types, such as apartments, office buildings, retail centers from major shopping malls to strip centers, industrial sites, historic structures, mixed use projects and the like. He has been involved in various transaction types, including land assemblages, acquisitions, dispositions, syndications, leasing, land use cases, loan workouts and foreclosures, and tax motivated transactions such as 1031 exchanges, synthetic leases and REIT unit exchanges, and various other sophisticated types of commercial real estate transactions.

James A. Branch, Vice President - Information Technology - Mr. Branch is responsible for all domestic and international systems at JER. Since joining JER in 1990, Mr. Branch has also served as the IT Manager for JER's Houston operation (RTC) and IT Manager for JER's Connecticut operation (FDIC). While at JER, Mr. Branch has overseen all portfolio conversions and integrated the information into JER's systems. He has also directed the opening of all JER's offices, including its international offices. Recently, Mr. Branch led the IT team on projects in Mexico and Europe.

Thomas M. Burdi, Vice President - Fund Investment Management - Mr. Burdi joined JER in the summer of 2003 and is a Vice President in the Fund Investment Management Group. Mr. Burdi joined JER from Heitman Capital Management, where he had been employed since 1994. Assuming the role of Vice President in Portfolio Management in 1994, Mr. Burdi was responsible for managing a geographically diverse real estate portfolio with a gross market value in excess of \$900 million. Mr. Burdi was promoted to Senior Vice President in 1999 where his additional responsibilities included discussion of overall portfolio strategies, preparation of bi-annual performance reports, and property disposition. Prior to his employment at Heitman Capital Management, Mr. Burdi was employed by JMB Realty Corporation. Among Mr. Burdi's many responsibilities, he solicited and negotiated approximately \$100 million of residential property loans and was directly involved in raising \$25 million from separate account investors for several lease deals. Prior to his employment with JMB Realty Corporation, Mr. Burdi held accounting positions for JMB Institutional Realty Corporation, Homart Development Company and Alberto-Culver Company. He received a B.S. in Accounting from the University of Denver and a Masters in Business Administration from the University of Chicago Graduate School of Business.

Bruce T. Cunningham, Vice President - Finance - Mr. Cunningham is Treasurer and Corporate Controller of JER. Mr. Cunningham joined JER in 1992. He reports to the Chief Financial Officer and is responsible for financial reporting for JER's domestic and international business activities, accounting policies, treasury management, including corporate credit facilities, the coordination of tax planning and compliance and financial planning and budgeting. Prior to joining JER, Mr. Cunningham held a variety of positions with GRC International Inc., a NYSE publicly traded technology company. Some of his positions included Corporate Controller, where his responsibilities included both internal financial reporting and external reporting to the SEC, and Director of Finance and Administration for International Operations of a bio-technology division within the company. Prior to joining GRC International Inc., Mr. Cunningham worked as an auditor at a public accounting firm.

Mr. Cunningham is a graduate of the University of Maryland where he obtained a B.S. degree in Accounting. He is a Certified Public Accountant and is a member of the American Institute of Certified Public Accountants and the Maryland Association of Certified Public Accountants.

Kari Doescher, Vice President - Finance – Ms. Doescher joined JER as a Vice President in the Finance and Accounting area. Ms. Doescher previously worked for JER from 1992-1994 as Manager of Financial Planning, primarily focused on financial and accounting issues related to the joint venture with Goldman Sachs. Prior to returning to JER in 2002, she was Senior Vice President and CFO of Gemini Air Cargo, overseeing finance, accounting, human resources and information technology of the 450 person international air cargo carrier. She has also held the position of Vice President Financial Planning at CRIIMI MAE and worked at a major international accounting firm. Ms. Doescher holds an MBA and a B.S. degree in Accounting from George Washington University, as well as a CPA.

Richard A. Harkins, Vice President - Legal – Mr. Harkins serves as Counsel for JER and the JER Funds. Since joining JER in 1992, he has served as counsel to all of JER's business lines, concentrating primarily on the acquisition and management of real estate loan portfolios for JER's private sector clients. Mr. Harkins has negotiated single asset and portfolio sales contracts, joint venture agreements, loan agreements and secured financing facilities. He has also represented JER in the New York City tax lien servicing contract, the implementation of JER's working capital line of credit and the placement and management of JER's corporate insurance portfolio. Prior to joining JER, he was general counsel for a Washington, D.C. area real estate developer and owner, and an associate at the Washington D.C. law firm of David Hagner, Kuney & Davidson.

Mr. Harkins graduated with high honors and high distinction from the University of Michigan where he obtained B.A. degree in History. He also obtained J.D. degree from the University of Virginia, School of Law. He is a member of the Virginia State Bar and of the District of Columbia Bar (inactive status).

James Hubbard, Vice President – Finance & Accounting – Mr. Hubbard currently serves as a Vice President and Tax Manager, responsible for the tax returns of the J E Robert Co. Inc. and its affiliated companies. He is responsible for the tax returns of JER Fund I, JER Fund II, JER Europe Fund I and their subsidiaries. Mr. Hubbard started working for JER in 1992 as a Financial Reporting Manager for the J E Robert Company of New England, servicing the FDIC contract. He has also worked in the Investment Advisory Group, accounting for and preparing the tax returns for the Archon investment partnerships. Mr. Hubbard began his career at The Bank Mart, a mutual savings bank in Bridgeport, CT, where he served as an internal auditor, controller and assistant vice president of its accounting department.

Mr. Hubbard graduated from Sacred Heart University with a B.S in Business Administration. He received a MBA, with a concentration in Accounting, from the University of Bridgeport and a M.S. degree in Taxation from the University of New Haven. Additionally, he holds Foundation and Applied diplomas from the American Institute of Banking. Mr. Hubbard is a Certified Public Accountant.

Debra Morgan, Vice President – CMBS Investments - Ms. Morgan serves as Portfolio Manager for all CMBS transactions for which JER serves as Special Servicer, and manages performing and non-performing loans in CMBS and non-CMBS portfolios. Ms. Morgan participates in acquisition and new business development activities, and has represented J.E. Robert Companies on various CMSA Post-Issuance Disclosure Committees.

Ms. Morgan joined J.E. Robert Companies in 1992 as an Asset Manager in the Dallas office managing assets in the RTC CMBS portfolios. Ms. Morgan has also managed J.E. Robert Companies' RTC MAST contracts, assets securitized in private transactions, and third-party assets. In 1996, Ms. Morgan assisted in the negotiation and closing of the largest private securitization, the \$1.9 billion Confederation Life transaction. Ms. Morgan assists in the preparation of bids, presentations, and departmental tools for asset management. Prior to joining J.E. Robert Companies, Ms. Morgan worked in asset management for HomeFed Bank in California, a \$13 billion California savings and loan, and Sunbelt Savings, FSB in Dallas, Texas, a \$10 billion Texas savings and loan.

Ms. Morgan holds a B.A. from the University of Texas at Dallas in interdisciplinary studies.

James C. Richards, Vice President – Fund Investment Management – Mr. Richards joined JER Partners as Vice President, Development Services. His primary responsibilities are executive oversight for JER's active real estate development projects undertaken with developer partners in North America, executive oversight of capital improvement projects for current JER assets, and consultation with acquisitions personnel regarding development-related aspects of acquisitions. He has 25 years of experience in the commercial and residential development field, and has participated in the development of more than \$500 million worth of commercial real estate projects across the U.S. He is a graduate of the Wharton School of the University of Pennsylvania.

Susan Sloan, Vice President - Finance – Ms. Sloan joined JER as Vice President and Controller. For the past seven years, Ms. Sloan was with PSINet Inc., an Internet service provider, in various positions; most recently serving as Senior Director for Financial Systems and Controls. Just prior to that, she was Controller of North American Vaccine. Ms. Sloan is a graduate of the University of Virginia and is a CPA.

Craig S. Smith, Vice President – Fund Investment Management – Mr. Smith is currently a Vice President responsible for asset management of real estate assets within the JER Funds and special servicing of CMBS non-performing loans. Mr. Smith was initially hired by JER as Loan Servicing Manager for the \$700 million RTC Mortgage Trust 1993 N2 portfolio. Prior to joining JER in 1993, Mr. Smith was employed by Weyerhaeuser Mortgage Company within their Project Loan Department and was responsible for loan servicing of a \$2.5 billion FHA Multifamily portfolio. Mr. Smith is a graduate of the University of California, Los Angeles, with a B.A. in Economics.

Marc Venegas, Vice President – Fund Investment Management – Mr. Venegas joined JER in the summer of 1997 and is a Vice President in the Fund Investment Management Group. At JER, Mr. Venegas has been involved in the acquisition of over \$600 million of assets in substantially all real estate

product types. Prior to joining JER, Mr. Venegas was a senior financial analyst in the acquisition group at NHP Inc., at the time, the largest public multifamily owner/operator in the U.S. Mr. Venegas received his B.S. in Economics from the University of Pennsylvania Wharton School in 1995.

International Officers

Alastair Bell, Director – European Fund Investment Management - Mr. Bell joined the London office to oversee the asset management of JER's U.K. investments. Prior to joining JER, Mr. Bell was at GE Capital Real Estate for over 5 years as a Senior Asset Manager. Mr. Bell was responsible for the closing and management of limited partnerships and overseeing the loan portfolio. Mr. Bell was also a director of their U.K. investment and trading companies which held assets worth in excess of £500 million. Prior to this, Mr. Bell worked for 10 years for a major U.K. property company, buying, managing and selling commercial property throughout the U.K. Mr. Bell is a graduate of Nottingham Trent University with a BSc in Urban Estate Surveying.

Jonathan Hodnett, Director - European Fund Investment Management - Mr. Hodnett has been based in JER's London office for the last four years where he has responsibility for JER's acquisition and asset management activities on the Continent, which include new business development, transaction structuring, financing and supervising the due diligence effort. Prior to moving to London he was responsible for JER's investment activities in Thailand, where he obtained government approval for the JER Thailand Property Fund, a tax-exempt vehicle for the acquisition of real estate and loan portfolios. Prior to joining JER, Mr. Hodnett was a Principal with Gateway Associates, Inc. where he was responsible for the acquisition and development of commercial and residential projects in the Washington, D.C., metropolitan area.

Mr. Hodnett is a graduate of Duke University with an MBA in Finance from the Fuqua School of Business. He received a B.A. in History (cum laude) from Colgate University.

Nathan Thompson, Director - European Fund Investment Management - Mr. Thompson is responsible for all acquisition and asset management matters for JER in the U.K. Prior to joining JER, Mr. Thompson spent over 12 years at MEPC, a major commercial property company in the U.K., most recently serving as a Member of the Executive Committee and as Managing Director of the Office Sector. Mr. Thompson has extensive experience in property trading, having successfully coordinated purchases and sales of over £2 billion of property since 1997. Mr. Thompson is a graduate of Sheffield Hallam University with a BSc in Urban Land Economics.

Marc de Chassey, Vice President – Fund Investment Management – Mr. de Chassey joined JER in the summer of 1999 and is a Vice President in the Fund Investment Management Group in London. At JER, Mr. de Chassey has been involved in the acquisition and/or management of over \$1 billion of assets in the United States and Europe. Mr. de Chassey received a Master in International Affairs from the Institut d'Etudes Politiques de Paris and a Master in Foreign Service with a concentration in Business and Finance at Georgetown University.

Claire Handley, Vice President - Legal - Ms. Handley joined JER as counsel and is responsible for legal matters involving investment structuring, document negotiation and transaction closings with respect to JER's European investments. Prior to joining JER, Ms. Handley was a Partner at Manches, a London based law firm, where she specialized in real estate work. Whilst there, she spent a year in

Malaysia working on debt-restructuring property transactions for a major South-East Asian client. Ms. Handley received a BA (Hons) in English Literature from the University of Newcastle-upon-Tyne before completing the CPE and Law Society Finals at Nottingham Law School. She is a member of the Law Society of England & Wales.

Philippe Manarin, Vice President - Finance - Mr. Manarin joined JER's Paris office in 1995 and is responsible for all asset management, accounting and financing functions in the Paris office. In addition to managing the finance and tax strategies, he is responsible for all reporting, including budget forecasts, portfolio performance and annual financial statements. Prior to joining JER, Mr. Manarin worked as controller with Los Nouveaux Constructeurs, a major French real estate developer. Mr. Manarin received a post-graduate degree from Ecole Superieure Libre des Sciences Commerciales Appliquees.

Sanjiv Raykundalia, Vice President - Finance - In January 2002, Mr. Raykundalia was appointed to assume the position of Controller of JER's European operations in JER's London office. His responsibilities include investor financial reporting, interfacing with outside investors and partners in relation to reporting and compliance matters and the provision of accounting and tax supervision. Mr. Raykundalia is a Chartered Accountant with 12 years' experience, gained both in the real estate industry and public practice. Prior to joining JER, Mr. Raykundalia was the Corporate Controller for Tishman Speyer Properties in London, having responsibility for their corporate entities across Europe. Prior to his move to industry, Mr. Raykundalia was a Senior Manager with Deloitte & Touche, advising a portfolio of property investment and development companies. Mr. Raykundalia received a BA (Hons) in Accountancy from The University of Central England in Birmingham. He is also a member of the Institute of Chartered Accountants in England and Wales.

Candace Ingals Valiunas, Vice President -- European Fund Investment Management - Ms. Valiunas joined JER to work in the management, operation and disposition of its European investments. Prior to joining JER, Ms. Valiunas worked with BAA MacArthur Glen and was responsible for managing the development of over 700,000 square feet of outlet center projects in the United Kingdom. Before moving to Europe in 1990, Ms. Valiunas practiced law in Washington, D.C. and for five years served as General Counsel to Bovermo Properties.

Ms. Valiunas graduated magna cum laude from Dartmouth College and received her law degree from the University Of Virginia School Of Law. She is a member of the District of Columbia Bar Association.

Martina Wüst, Vice President - Investor Relations - In July 2002, Ms. Wüst joined JER's London office as Vice President for Investor Relations Europe. She is responsible for maintaining close relations with existing investors as well as establishing relationships with new potential investors across Europe. Ms. Wüst also coordinates JER's capital raising efforts in Europe. Before joining JER, Ms. Wüst spent two years with Deutsche Bank in London in their European Securitization Group where she held the title of Vice President. Previously, Ms. Wüst was with Credit Suisse First Boston in their Asset Finance Group in London and she has also worked at Hypo-Bank in Munich and London. She earned her degree in business administration from Ludwig-Maximilians University in Munich.

The Global Advisory Board members

In addition to senior management, JER has an active Global Advisory Board (the "Board"). The Global Advisory Board members consist of individuals who are familiar with JER's investment focus and criteria.

Board members contribute in various ways to strengthen JER's investment activities including chairing investment strategy sessions, participating on governance subcommittees, sourcing large-scale corporate investment opportunities, establishing relationships, advising on organizational structure and consulting on hedging policies. JER believes that the exchange of ideas with this group of distinguished and experienced advisors enhances JER's performance as the firm expands its international investment activities. JER benefits from the breadth of experience and the relationship contacts of its members. Several members of the Board have invested personally in the Prior JER Funds.

Name	Title	Organization
Jürgen Bader	Former Managing Director	<i>Bayer-Pensionskasse</i>
C. Fred Bergsten	Director	<i>Institute for International Economics</i>
Ana Patricia Botín	Chairman	<i>Banesto</i>
Frank J. Caufield	Co-Founder	<i>Kleiner Perkins Caufield & Byers</i>
Alfred A. Checchi	Former Co-Chairman	<i>Northwest Airlines</i>
W. Peter Cooke	Former Director	<i>Bank of England</i>
Jessica P. Einhorn	Dean	<i>SAIS, Johns Hopkins University</i>
José Angel Gurría	Former Treasury Secretary	<i>Mexico</i>
James A. Harmon	Former Chairman	<i>Export-Import Bank of the United States; Schroder Wertheim & Co</i>
Larry Owen	Managing Director	<i>Stanford Management Company</i>
I. Peter Sedgwick	Former Chairman	<i>Schroders plc</i>
Alan G. Spoon	Managing General Partner	<i>Polaris Venture Partners, LLC; Washington Post</i>
Stephen C. Thieke	Former Chairman	<i>Risk Management Committee of J.P. Morgan</i>
Brian V. Wilson	Former Director	<i>Allied Irish Bank; Aga Khan Fund for Economic Development</i>

EXHIBIT C – Five Year Strategic Objectives and Goals

JER PARTNERS FIVE-YEAR STRATEGIC OBJECTIVES AND GOALS

1. Continue to build a leading real estate investment and asset management company
2. Successfully and prudently invest JER Fund III and JER Europe Fund II
3. Harvest remaining value in JER Fund I, JER Fund II and JER Europe Fund I
4. Raise additional capital for follow-on funds in North America and Europe
5. Explore opportunities for synergistic growth across real estate products
6. Maintain adequate staffing levels to accomplish company goals and provide growth opportunities for JER employees

EXHIBIT D – Financial Statements

JER Fund I and JER Fund II financial statements as of December 31, 2003 begin on the following page.

JER Fund I

**Annual Report
December 31, 2003**

JER Fund I

Table of Contents

December 31, 2003

Report of Independent Auditors	1
Consolidated and Combined Financial Statements	
Consolidated and Combined Statements of Assets, Liabilities and Partners' Capital	2
Consolidated and Combined Statements of Operations	3
Consolidated and Combined Statements of Changes in Partners' Capital	4
Consolidated and Combined Statements of Cash Flows	5
Notes to Consolidated and Combined Financial Statements	6
Supplemental Schedules (unaudited)	
Compliance with Leverage Guidelines	24
Schedule of Fees and Reimbursements by the General Partner or Any of its Affiliates	25
Schedule of Changes in Partners' Capital Accounts	26
Certifications	28

Report of Independent Auditors

To the General Partner and Limited Partners
JER Real Estate Partners, L.P. and
JER Real Estate Qualified Partners, L.P.

We have audited the accompanying consolidated and combined statements of assets, liabilities, and partners' capital of JER Real Estate Partners, L.P. and JER Real Estate Qualified Partners, L.P. (collectively, JER Fund I), including the schedule of investments, as of December 31, 2003 and 2002, and the related consolidated and combined statements of operations, cash flows, and changes in partners' capital for the years then ended. These financial statements are the responsibility of the General Partner. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the historical cost basis financial statements as of December 31, 2003 and for the year then ended of One Kendall Square Investors, LLC (One Kendall Square), a 48.5 percent equity method investment, which JER Fund I's investment in and equity in earnings reflect 8.71 percent and 3.18 percent, respectively, of the related consolidated and combined total assets and net investment income, respectively. We did not audit the historical cost basis financial statements as of December 31, 2003 and for the year then ended of JER Hudson Housing Capital LLC (Hudson Housing), a 68.3 percent owned subsidiary, which statements reflect total assets and revenues constituting 4.53 percent and 11.73 percent, respectively, of the related consolidated and combined totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Hudson Housing and One Kendall Square, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of JER Fund I as of December 31, 2003 and 2002, the results of its operations, its cash flows, and changes in its partners' capital for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

March 12, 2004

JER Fund I

Consolidated and Combined Statements of Assets, Liabilities, and Partners' Capital

	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Assets		
Real Estate Assets	\$ 34,855,229	\$ 187,843,629
CMBS	99,688,458	135,649,354
Investment in Unconsolidated Entities	53,366,806	89,834,583
Loans and Notes Receivable	2,801,793	5,295,086
Cash and Cash Equivalents	4,676,924	7,248,050
Restricted Cash	1,958,073	7,039,089
Accounts Receivable	2,201,820	22,176,721
Accrued Interest Receivable	1,687,991	2,614,020
Other Assets	1,005,029	2,540,203
Total Assets	\$ 202,242,123	\$ 460,240,735
Liabilities and Partners' Capital		
Secured Notes	\$ 32,044,181	\$ 96,271,248
Loans Payable	8,734,593	59,175,394
Repurchase Obligations	3,404,869	3,295,320
Accounts Payable and Accrued Expenses	2,644,322	8,796,884
Escrow Payable	72,199	399,434
Total Liabilities	46,900,164	167,938,280
Minority Interests	447,810	45,805,652
Partners' Capital	154,894,149	246,496,803
Total Liabilities and Partners' Capital	\$ 202,242,123	\$ 460,240,735

See Accompanying Notes

JER Fund I

Consolidated and Combined Statements of Operations

	For The Years Ended	
	December 31,	
	<u>2003</u>	<u>2002</u>
Revenues		
Interest Income	\$ 35,903,005	\$ 45,905,259
Rental Income	9,421,509	20,527,626
Equity in Earnings of Unconsolidated Entities	7,394,007	18,094,760
Other Income	7,927,907	5,220,071
Total Revenues	<u>60,646,428</u>	<u>89,747,716</u>
Expenses		
Interest Expense	4,502,164	5,699,300
Property Operating Expenses	3,625,911	7,163,570
Asset Management Fees	2,365,230	5,093,320
Administrative Expenses	7,424,181	9,645,283
Total Expenses	<u>17,917,486</u>	<u>27,601,473</u>
Net Investment Income	42,728,942	62,146,243
Net Realized Gains	10,262,651	12,930,354
Net Unrealized Gains (Losses)	(30,717,934)	28,449,844
Income before Minority Interests	<u>22,273,659</u>	<u>103,526,441</u>
Minority Interests	<u>(6,899,754)</u>	<u>(18,089,125)</u>
Net Income	<u>\$ 15,373,905</u>	<u>\$ 85,437,316</u>

See Accompanying Notes

JER Fund I

Consolidated and Combined Statements of Changes in Partners' Capital For the Years Ended December 31, 2003 and 2002

	<u>General Partner</u>	<u>Limited Partners</u>	<u>Total</u>
Balance at December 31, 2001	\$ 10,532,345	\$ 340,935,667	\$ 351,468,012
Distributions	(5,448,563)	(184,959,962)	(190,408,525)
Net Income	<u>2,310,877</u>	<u>83,126,439</u>	<u>85,437,316</u>
Balance at December 31, 2002	7,394,659	239,102,144	246,496,803
Distributions	(12,502,711)	(94,473,848)	(106,976,559)
Net Income	<u>9,754,630</u>	<u>5,619,275</u>	<u>15,373,905</u>
Balance at December 31, 2003	<u>\$ 4,646,578</u>	<u>\$ 150,247,571</u>	<u>\$ 154,894,149</u>

See Accompanying Notes

JER Fund I**Consolidated and Combined Statements of Cash Flows**

	For the Years	
	Ended December 31,	
	<u>2003</u>	<u>2002</u>
Operating Activities		
Net Income	\$ 15,373,905	\$ 85,437,316
Activities:		
Net Realized and Unrealized (Gains) Losses	20,455,283	(41,380,198)
Equity in Earnings of Unconsolidated Entities	(7,394,007)	(18,094,760)
(Accretion)/Amortization	(1,547,649)	(2,230,203)
Currency Translation	(3,267,843)	(895,858)
Minority Interests	6,899,754	18,089,125
Changes in Operating Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable	19,854,965	(21,960,201)
Decrease (Increase) in Accrued Interest Receivable	926,029	(167,030)
Decrease in Other Assets	3,276,248	2,560,793
(Decrease) Increase in Accounts Payable and Accrued Expenses	(3,699,475)	1,985,289
Net Cash Provided by Operating Activities	<u>50,877,210</u>	<u>23,344,273</u>
Investing Activities		
Investment in Loans, Notes Receivable and CMBS	-	(1,632,352)
Investment in Real Estate Assets	(3,235,310)	(35,980,263)
Investment in Unconsolidated Entities	(1,380,083)	(286,798)
Decrease (Increase) in Restricted Cash	4,081,015	(1,239,001)
Decrease in Escrow Payable	(327,235)	(110,470)
Principal Payments from Loans, Notes Receivable and CMBS	28,492,556	76,214,443
Proceeds from Sales of Real Estate Assets and Investments in Unconsolidated Entities	158,322,688	108,648,734
Distributions from Unconsolidated Entities	33,600,446	23,201,508
Net Cash Provided by Investing Activities	<u>219,554,077</u>	<u>168,815,801</u>
Financing Activities		
Minority Interest Contributions	781,520	517,616
Distributions to Partners	(106,976,559)	(190,408,525)
Distributions to Minority Interests	(52,049,038)	(2,981,563)
Proceeds from Secured Notes, Loans Payable and Repurchase Obligations	13,834,943	206,271,140
Repayments of Principal under Secured Notes, Loans Payable and Repurchase Obligations	(128,593,279)	(205,136,113)
Net Cash Used in Financing Activities	<u>(273,002,413)</u>	<u>(191,737,445)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(2,571,126)	422,629
Cash and Cash Equivalents, Beginning of Year	7,248,050	6,825,421
Cash and Cash Equivalents, End of Year	<u>\$ 4,676,924</u>	<u>\$ 7,248,050</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	<u>\$ 4,785,495</u>	<u>\$ 5,120,471</u>

See Accompanying Notes

JER Fund I

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

1. ORGANIZATION AND BUSINESS PURPOSE

JER Real Estate Partners, L.P. and JER Real Estate Qualified Partners, L.P. (collectively, the "Partnerships" and the "Fund") were formed as limited partnerships under the Delaware Revised Uniform Limited Partnership Act for the purpose of investing in real property and real estate related assets and securities. The Partnerships are governed by two separate Amended and Restated Limited Partnership Agreements dated as of July 31, 1997 (the "Partnership Agreements"). The term of the Partnerships will expire on January 31, 2006 unless terminated earlier or extended in accordance with the provisions of the Partnership Agreements. Capitalized terms used herein are defined in the Partnership Agreements unless otherwise indicated.

The general partner of the Partnerships is JER Real Estate Advisors, L.P. (the "General Partner"). The management, control, operation and the determination of policy with respect to the Partnerships are vested exclusively in the General Partner.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated and combined financial statements have been prepared using the fair value basis of accounting. The presentation of the financial statements reflects the Fund's assets and liabilities at fair value consistent with the reporting required by the American Institute of Certified Public Accountants ("AICPA") Investment Company Audit Guide. The classification of the Fund's investments follows accounting principles proscribed by Accounting Principles Board ("APB") Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock" and Statement of Position ("SOP") 78-9, "Accounting for Investments in Real Estate Ventures." The Fund's investments in real estate (1) are consolidated if the Fund exercises control over the entity or operation, or (2) accounted for under the equity method if the Fund exercises significant influence, or (3) the cost method is used if the investment represents a nominal interest in the entity or operation and it is not significantly influenced by the Fund. The Fund records its share of net earnings or losses from the equity method investments reduced by distributions from the equity method investments.

Principles of Consolidation and Combination

The consolidated and combined financial statements include the accounts of the Partnerships due to co-investment in the same investments generally on the same economic terms. All majority-owned and controlled subsidiaries are consolidated and the outside investors' interests are reflected as minority interest. All significant intercompany transactions have been eliminated.

JER CDO 2002-1 LLC ("CDO LLC") was established in September 2002 for the purpose of acquiring substantially all of the commercial mortgage-backed securities ("CMBS") held by JER Financial Products ("JER FP"), a wholly owned subsidiary of the Partnerships. At formation, CDO LLC contributed the CMBS, with a fair value of \$162.8 million, to JER CDO 2002-1 Trust ("CDO Trust") which issued two classes of collateralized debt obligations ("CDO"). The CDO Trust is a qualifying special purpose entity under Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets," which means the transferred assets in the Trust are the sole source of repayment of the Secured Notes and the Trust itself is beyond the reach of the Fund and its creditors. The Fund does not maintain control over the transferred assets; however, because the Fund has a retained interest in the Trust that provides the Fund with the ability to repurchase the Secured Notes, the transaction has been accounted for as a financing for financial statement purposes.

JER Fund I

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Valuation of Assets and Liabilities

Assets and liabilities, including hedge positions, are stated at fair value as determined by the General Partner with any resulting change in value being recorded as unrealized gains or losses in the accompanying consolidated and combined statements of operations.

In applying the fair value basis of accounting to real estate investments, the General Partner generally does not mark-up assets from historical cost (which excludes the effects of depreciation and amortization), unless management's assessment of fair value is collaborated through third party evidence, such as a signed letter of intent, a purchase and sale agreement, an appraisal, or another capital event that supports a mark-up. A mark down from cost would take place when the General Partner believes that a material deterioration in the operating results, market conditions, or other factors that impact the property's value has occurred.

In determining fair value for real estate investments, investments in unconsolidated entities (all of which are real estate related) and real estate related loans and notes receivable, the General Partner uses discounted projected cash flows which are based on the General Partner's business plans for managing each asset. The General Partner uses discount rates appropriate to a potential investor's expected return, given the perceived risk if they were to purchase the asset as of the balance sheet date. The discount rates that have been used by the General Partner range between 15% and 24%. In some cases, third party appraisals of real estate assets have been received, and these values along with the assumptions in the appraisals are considered in arriving at the asset's fair value.

Due to the inherent uncertainties of asset and liability valuations, the estimated fair values reflected in the accompanying consolidated and combined financial statements may differ significantly from values that would be determined by negotiation between parties in a sales transaction. In addition, future unforeseen events, either specific events affecting the asset or macro economic events could significantly affect the values reflected in the accompanying financial statements.

The following table reflects the historical cost basis of accounting of the Fund's real estate investments (excluding depreciation/amortization and including capitalized interest, acquisition cost, discount accretion/amortization and equity in earnings, if applicable) as compared to fair value.

	<u>As of December 31, 2003</u>		<u>As of December 31, 2002</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Real Estate Assets	\$ 38,361,280	\$34,855,229	\$164,036,367	\$187,843,629
Investment in Unconsolidated Entities	64,638,702	53,366,806	85,566,884	89,834,583
Loans and Notes Receivable	2,801,793	2,801,793	7,831,794	5,295,086
	<u>\$105,801,775</u>	<u>\$91,023,828</u>	<u>\$257,435,045</u>	<u>\$282,973,298</u>

Costs incurred for the improvement of real estate investments are capitalized as additions to the investments' cost basis. Interest capitalized and included in real estate assets was \$0 for the year ended December 31, 2003 and \$2,814,477 for the year ended December 31, 2002.

Included in the asset's cost basis in the above table is the revaluation of the foreign denominated investments to U.S. dollars, which amounted to a net gain of \$6,446,037 and \$2,504,987 as of December 31, 2003 and 2002, respectively. Based on current investment management plans and based on the Fund's fair value policy, the Fund has recognized a cumulative unrealized gain (loss) of \$(11,800,159) and \$27,141,160 at December 31, 2003 and 2002, respectively. These fair value adjustments are included in the fair value of the investments in the above table.

JER Fund I

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a result of having foreign investments, the Partnerships are exposed to the effect of foreign exchange rate fluctuations on the U.S. dollar. The Partnerships have purchased foreign currency put options and have entered into collar agreements to minimize the effect of fluctuating foreign currencies on future cash flows.

The General Partner has received third party valuations on the various foreign currency hedges which are included in each investment's basis in the accompanying consolidated and combined statements of assets, liabilities and partners' capital. Changes in the value of the hedges are included as a component of the net unrealized (losses) gains in the accompanying consolidated and combined statements of operations. The fair value of foreign currency hedges at December 31, 2003 and 2002 was a net liability of \$(3,486,491) and \$(1,218,507), respectively and is included in the fair value of the investment in the table above. At December 31, 2003 and 2002 the premium paid on the initial purchase of the hedges of \$0 and \$510,000, respectively, is shown in the historical cost basis in the table above. The foreign currency hedges mature in December 2004.

The Partnerships, through subsidiaries and individual joint venture entities, have also entered into various interest rate cap and swap agreements to minimize the effect of fluctuations on interest rates, future cash flows and reported income. The interest rate hedges are considered in the development of the underlying assets' net cash flow pursuant to the business plan for that asset. As a result the value of those hedges are considered as part of the overall fair value of the investment.

Revenue Recognition

Rental Income

Rental income is recognized when earned pursuant to the terms of the underlying tenant leases. The financial statements are prepared using the fair value basis; therefore, the Fund does not record rental income on a straight-line basis.

Realized Gains (Losses)

Realized gains (losses) on sales of loans, notes receivable, real estate assets, and CMBS are recognized when the transaction is consummated, adequate consideration is exchanged and the nature of any contingencies or continuing involvement is such that gain recognition is acceptable.

CMBS

The CMBS securities are generally non-investment grade securities which are secured by commercial mortgage loans, which are in turn secured by commercial real estate. CMBS are carried at fair value which is generally based on third party quotes obtained from active dealers in the CMBS market. The Fund also uses a discounted cash flow model which utilizes prepayment and loss assumptions based upon historical experience, economic factors and the characteristics of the underlying cash flow in order to substantiate the fair value of the securities. The assumed discount rate is based upon the current yield of comparable securities. Income is recognized in accordance with EITF 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" using the effective interest method, based on the anticipated yield over the expected life of the investment. Yields are revised when there are changes in estimates of future credit losses, actual losses incurred, and actual and estimated prepayment speeds. To the extent unrealized losses on securities reflect a decline in value that is other than temporary this would result in a write down of the impaired security to its fair value. This would create a new carrying basis for the security and a revised yield would be calculated based on the future estimated cash flows. Changes in estimated yields are recognized prospectively as an adjustment to the estimated yield over the remaining life of the CMBS.

JER Fund I

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and Notes Receivable

Interest income from loans and notes receivable is recognized when earned and collectibility is reasonably assured.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with a maturity of 90 days or less when purchased.

Restricted Cash

Restricted cash represents cash held by the Partnerships and subsidiaries for security deposits and in escrow accounts, as required by lenders.

Accounts Receivable

Payments received from CMBS in January 2003 that related to December 2002 are classified in accounts receivable at December 31, 2002. The portion of the receivable that related to principal (\$21,916,988) was used to pay down the secured notes in January 2003. There were no amounts in accounts receivable related to payments from CMBS at December 31, 2003.

Income Taxes

No provision has been made in the accompanying consolidated and combined financial statements for federal, state, or local income taxes, as each Partner is individually responsible for reporting its share of the Partnerships' taxable income or loss. Personal property, gross receipts and other taxes that are not flow-through type taxes are appropriately reflected in the accompanying financial statements.

Guarantees

Financial Accounting Standards Board ("FASB") Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45") provides for initial recognition accounting of guarantees issued or modified after December 31, 2002, and disclosure requirements for certain guarantees for financial statements of annual periods ending after December 15, 2002. The Fund has certain guarantees, which require disclosure under FIN 45 as provided in Note 6.

Use of Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated and combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications

Certain 2002 amounts were reclassified to conform with 2003 presentation.

Recent Pronouncements

In December 2003, the FASB issued the revised Interpretation No. 46, "Consolidation of Variable Interest Entities," ("FIN 46R") which changes the guidelines for consolidation of and disclosure related to unconsolidated entities, if those unconsolidated entities qualify as variable interest entities, as defined in FIN 46R. The effective date for applying the provisions of FIN 46R is deferred for companies that currently account for their investments in accordance with the AICPA Investment Company Audit Guide.

JER Fund I

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In December 2003, the AICPA issued SOP 03-4, "Reporting Financial Highlights and Schedule of Investments by Nonregistered Investment Partnerships: An Amendment to the Audit and Accounting Guide Audits of Investment Companies and AICPA Statement of Position 95-2, Financial Reporting by Nonpublic Investment Partnerships" ("SOP 03-4"). The disclosure requirements of SOP 03-4 are required for financial statements beginning after December 15, 2003. The impact of the adoption of SOP 03-4 is not expected to have a significant impact on the accompanying consolidated and combined financial statements.

3. ALLOCATION OF NET INCOME (LOSS) AND DISTRIBUTIONS

Allocation of Net Income (Loss)

The Partnership Agreements generally provide that net income or net loss for each fiscal year shall be allocated to reflect capital account balances by partner that would result if cash equal to such total capital account balances were distributed in accordance with Section 3.5 of the Partnership Agreements. The largest component of cash distributions that may result in non pro-rata income distributions is the General Partner's Carried Interest. Given that the General Partner is entitled to payments of Carried Interest only when cash is distributed in accordance with Section 3.5 of the Partnership Agreement and that these payments are subject to clawback provisions, net income (loss) has generally been allocated to the Partners pro-rata, based on capital commitments. To the extent that non pro-rata distributions such as Carried Interest payments to the General Partner have been made, income has been allocated to match the cash distributions. In the future, distributions may result in significant non pro-rata allocations of income among partners.

Allocation of Distributions

The Partnership Agreements provide that Current Proceeds and Disposition Proceeds, from an Investment shall generally be distributed to the Partners as follows:

- (i) First, 100% to such Limited Partner until such Limited Partner has received cumulative distributions of Investment Proceeds from such Investment and all Realized Investments, that returns 100% of (a) the Limited Partner's cumulative Capital Contributions for all Realized Investments, (b) the Limited Partner's pro rata share of any Net Losses from Writedowns and, (c) the Limited Partner's portion of organizational expenses, management fees and other expenses as defined in the Partnership Agreement;
- (ii) Second, 100% to such Limited Partner until such distribution results in such Limited Partner receiving a 10% Preferred Realized Return, and such Limited Partner has achieved a 10% Preferred Realized and Unrealized Return;

JER Fund I

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

3. ALLOCATION OF NET INCOME (LOSS) AND DISTRIBUTIONS (continued)

(iii) Third, 50% to such Limited Partner and 50% to the General Partner to the extent, if any, necessary so that the cumulative distributions of Carried Interest, to the General Partner from such Investment and all Realized Investments with respect to such Limited Partner, equals 20% of the sum of:

(A) the excess of (I) the cumulative distributions to such Limited Partner of Investment Proceeds from such Investment and all Realized Investments over (II) the amount described in section (i) above, plus

(B) the cumulative distributions of Carried Interest from such Investment and all Realized Investments to the General Partner with respect to such Limited Partner;

provided that if the cumulative distributions of Carried Interest to the General Partner from such Investment and all Realized Investments with respect to such Limited Partner already exceeds 20% of the foregoing sum, then the distribution shall instead be made 100% to such Limited Partner until the cumulative distributions of Carried Interest to the General Partner from such Investment and all Realized Investments with respect to such Limited Partner equals 20% of the foregoing sum; and

(iv) thereafter, 80% to such Limited Partner and 20% to the General Partner.

4. CMBS

The Fund's CMBS portfolio consisted of the following:

	As of December 31, 2003		As of December 31, 2002	
	Amortized/ Accreted Cost	Fair Value	Amortized/ Accreted Cost	Fair Value
CMBS held by CDO Trust	\$ 80,904,469	\$ 95,495,632	\$ 105,041,261	\$ 128,976,937
CMBS Bonds	4,062,858	4,192,826	5,642,737	6,672,417
Total	\$ 84,967,327	\$ 99,688,458	\$ 110,683,998	\$ 135,649,354
Effective Unlevered Yield		33.0%		27.8%

JER Fund I

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

4. CMBS (continued)

The non-investment grade and unrated tranches of the CMBS in which the Fund invests are subordinate in right of payment to the more senior tranches of the related CMBS issuance. Cash flow from the underlying mortgages generally is allocated first to the senior tranches, with the most senior tranches having a priority right to the cash flow. Any remaining cash flow is allocated, generally, among the other tranches in order of their relative seniority. To the extent there are defaults and unrecoverable losses on the underlying mortgages resulting in reduced cash flows, the most subordinate tranche will bear this loss first.

The rating classes of the CMBS were as follows:

Rating Class	As of December 31, 2003		As of December 31, 2002	
	Fair Value	Percentage of Total	Fair Value	Percentage of Total
AAA ⁽¹⁾	\$ 5,002,496	5.0%	\$ 4,787,589	3.5%
AA	1,941,582	1.9%	-	0.0%
A	10,531,477	10.6%	-	0.0%
BBB	2,358,288	2.4%	4,602,252	3.4%
BB	32,057,687	32.2%	51,021,248	37.6%
B	13,436,342	13.5%	34,578,416	25.5%
CCC	12,604,525	12.6%	-	-
Unrated	21,756,061	21.8%	40,659,849	30.0%
Total	\$ 99,688,458	100.0%	\$ 135,649,354	100.0%

⁽¹⁾ Investments rated AAA include interest only strips ("IOs") and floor certificates. Generally these investments were made along with other tranches in a CMBS issuance.

At December 31, 2003 and 2002, the CMBS were secured by commercial mortgage loans with an aggregate total outstanding principal balance of approximately \$2.3 billion and \$2.7 billion, respectively. At December 31, 2003, on average, the Fund's CMBS were subordinate to approximately 81% of the total bond principal outstanding in the CMBS issuances.

JER Fund I

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

4. CMBS (continued)

The geographic and property type composition of the fair value of the Fund's investment in CMBS is based upon the characteristics of the underlying mortgage loans securing the respective CMBS at December 31, 2003 and 2002 and were as follows:

<u>Geographic Region</u>	<u>As of December 31, 2003</u>	<u>As of December 31, 2002</u>
Northeast	24.2%	18.3%
Pacific	19.4%	14.2%
Southwest	7.7%	21.0%
Canada	4.0%	2.8%
Southeast	3.6%	6.7%
North Central	3.0%	2.2%
Mideast	1.7%	10.4%
Mountain	0.8%	0.9%
Other ⁽¹⁾	35.6%	23.5%
Total	100.0%	100.0%

<u>Property Type</u>	<u>As of December 31, 2003</u>	<u>As of December 31, 2002</u>
Retail	20.7%	16.4%
Apartment	18.9%	24.4%
Office	17.0%	18.0%
Hotel	11.2%	17.5%
Industrial	2.3%	3.7%
Other ⁽¹⁾	29.9%	20.0%
Total	100.0%	100.0%

⁽¹⁾ The Fund's investment in non-traditional CMBS structures such as REIT bonds, Financial Asset Securitization Investment Trusts (FASIT's) which allow asset additions and substitutions, and Re-REMICs which are resecuritizations of CMBS bonds are classified as "Other".

JER Fund I

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

5. INVESTMENTS IN UNCONSOLIDATED ENTITIES

The Partnerships' investment in unconsolidated entities consist of ownership interests in real estate assets and operating companies. Included in the consolidated and combined statements of operations is the Fund's proportionate share of income (loss) from the unconsolidated entity. The following tables reflect the historical cost basis of accounting of the Fund's investments in unconsolidated entities excluding depreciation and amortization and including capitalized interest, discount accretion and equity in earnings, if applicable.

As of and for the Year Ended December 31, 2003

Investment	Ownership Percentage	Total Assets	Total Liabilities	Net Income
One Market Street	22.62%	\$ 72,099,390	\$ 66,024,443	\$ 3,434,315
ISM	20.00%	1,954,430,813	1,884,709,649	12,924,810
Austin Technology Park	24.07%	98,072,861	36,262,421	4,811,373
Brauvn Capital I	24.69%	13,471,630	342,922	2,952,832
Brauvn Capital II	23.99%	33,485,329	14,807,915	10,237,510
One Kendall Square	48.50%	211,950,151	162,451,132	10,016,408

As of and for the Year Ended December 31, 2002

Investment	Ownership Percentage	Total Assets	Total Liabilities	Net Income
One Market Street	22.62%	\$ 73,090,805	\$ 65,985,253	\$ 8,779,233
IBM Plaza	30.00%	13,601,919	28,363	1,277,248
ISM	20.00%	1,751,457,708	1,595,082,797	30,164,751
Inverprim	50.00%	10,992,476	395,046	488,863
Austin Technology Park	24.07%	93,321,925	36,153,683	3,977,760
Brauvn Capital I	24.69%	21,716,298	321,600	3,357,209
Brauvn Capital II	24.55%	49,056,846	25,689,377	5,053,728
55 West Wacker	46.25%	21,436,185	15,730,242	1,592,145
One Kendall Square	48.50%	204,430,444	162,323,971	8,370,995

JER Fund I
Notes to the Combined Financial Statements
December 31, 2003
6. DEBT OBLIGATIONS

The following table summarizes the Partnerships' debt.

As of December 31, 2003					
Debt Type/Description	Notes	Debt per Balance Sheet (a)	JER Debt (b)	Effective Interest Rate	Maturity
Secured Notes					
JER CDO 2002-1 Trust	(c)	\$32,044,181	\$ -	5.34%	Oct-32
Repurchase Obligations					
Merrill Lynch	(d)	3,404,869	3,404,869	7.30%	(d)
Loans Payable (Property Level)					
One Kendall Square	(e), (o)	-	77,600,000	4.12%	Jan-05
Austin Technology Park	(f), (o)	-	8,135,535	3.75%	Jul-04
Blossom Business Park	(g), (o)	5,577,496	5,577,496	9.08%	Jun-22
Hudson Housing	(h), (p)	3,157,097	2,156,297	3.62%	Jun-04
One Market Street	(i), (p)	-	13,978,433	8.17%	Dec-30
Brauvin Capital II	(j), (p)	-	2,163,390	3.72%	Jan-05
Subtotal		8,734,593	109,611,151		
Total		\$44,183,643	\$113,016,020		

As of December 31, 2002					
Debt Type/Description	Notes	Debt per Balance Sheet (a)	JER Debt (b)	Effective Interest Rate	Maturity
Secured Notes					
JER CDO 2002-1 Trust	(c)	\$96,271,248	\$ -	5.34%	Oct-32
Repurchase Obligations					
Merrill Lynch	(d)	2,795,320	2,795,320	7.30%	(d)
Credit Suisse First Boston	(k)	500,000	500,000	1.88%	Mar-04
Subtotal		3,295,320	3,295,320		
Loans Payable (Property Level)					
One Kendall Square	(e), (o)	-	77,600,000	6.00%	Jan-05
Austin Technology Park	(f), (o)	-	8,170,110	4.02%	Jul-04
Blossom Business Park	(g), (o)	5,675,031	5,675,031	9.08%	Jun-22
Hudson Housing	(h), (p)	2,283,964	1,559,948	5.25%	Jun-03
One Market Street	(i), (p)	-	14,094,860	8.17%	Dec-30
Brauvin Capital II	(j), (p)	-	6,009,916	4.37%	Dec-03
55 West Wacker	(l), (p)	-	6,316,133	7.63%	Oct-25
Potomac Center, North	(m), (p)	14,560,000	7,098,000	2.92%	Aug-03
Potomac Center, South	(n), (p)	36,656,399	17,869,995	3.42%	May-04
Subtotal		59,175,394	144,393,993		
Total		\$158,741,962	\$147,689,313		

JER Fund I

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

6. DEBT OBLIGATIONS (continued)

Footnotes to the Debt Obligation Table

- (a) Represents the total debt outstanding for those entities which are consolidated in the Partnerships' financial statements.
- (b) Represents the Fund's pro rata share of third party debt of consolidated and equity method investments for purposes of the Partnership Agreements' leverage test.
- (c) The Secured Notes were issued in September 2002 as part of the CDO transaction. Interest on the Secured Notes is fixed and is payable monthly. Until the principal balance has been paid in full, the Secured Notes' holders will receive all principal proceeds received on the underlying CMBS during the payment period. The Secured Notes will mature in October 2032 unless repaid prior to that date. The proceeds from the sale of the Secured Notes were used to repay certain outstanding repurchase obligations and to make a distribution to the Partners.
- (d) JER FP has a CMBS repurchase agreement in place with Merrill Lynch related to its investment in CMBS which are denominated in Canadian dollars (CAD). The repurchase agreement has been in place since May 2000 and was extended on a month-to-month basis through December 2003. It was repaid in March 2004. The interest rate is based on LIBOR plus a margin, tiered according to the underlying security's rating. In May 2000, JER FP entered into a fixed for floating interest rate swap agreement that fixes the all-in interest rate on a notional amount of CAD 4,743,548 (\$3,665,340) at 7.3% through April 2010. In May 2000, JER FP also entered into a currency swap agreement whereby Canadian dollars are swapped for U.S. dollars. The Fund guaranteed all amounts due under the repurchase and swap agreements. The swap agreements were terminated in March 2004 at the time the repurchase agreement was repaid.
- (e) In December 2001, a subsidiary of the Partnerships obtained a loan for a mixed use project in Cambridge, Massachusetts. Interest on the loan is based on LIBOR plus 3.0%, subject to an all-in floor of 6.0%. A derivative was purchased for \$1.1 million which effectively eliminated the floor beginning in December 2002.
- (f) An affiliated entity entered into a loan in June 2000 collateralized by an office/industrial property in Austin, Texas. Interest is based on LIBOR plus 2.60%. LIBOR was capped at 8.0% through May 2003 through the use of an interest rate cap agreement. Due to achieving debt coverage requirements in the loan agreement, no further interest rate cap agreements are required.
- (g) In October 1998, a wholly owned subsidiary of the Partnerships assumed a mortgage which is fully secured by real estate located in San Antonio, Texas. The interest rate is fixed through June 2004 at which point it becomes equal to the greater of 11.08% or the Treasury rate plus 2.0%. Amortization is based on a 25 year amortization period. In addition to the guarantor disclosure in (o) below, the Fund has certain environmental indemnifications for losses up to \$1.5 million. The Fund also guarantees the debt if the borrower fails to comply with certain covenants in the debt agreement. As of December 31, 2003, no amounts are due and management does not expect payments to be required under the guarantees.

JER Fund I

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

6. DEBT OBLIGATIONS (continued)

- (h) In August 2000, JER Hudson Housing Capital, a subsidiary of the Partnerships, entered into a senior revolving credit facility which, after subsequent amendments, provides for up to \$15 million to fund a portion of the capital contributions to partnerships owning multifamily real estate properties. At the borrower's option, interest is based on LIBOR plus 2.5% or the lending institution's base rate plus 1.0%.
- (i) In November 2000, an affiliate of the Partnerships entered into a note arrangement whereby it obtained the ability to borrow up to \$125.25 million. The note is secured by an office building in San Francisco, California. Interest is fixed through December 2007 at which point it becomes equal to the greater of 13.17% or the Treasury rate plus 5.0%. Payments on the loan are based on a 30 year amortization schedule.
- (j) In December 2001, an affiliate of the Partnerships refinanced existing debt with a credit facility for \$33.25 million which is collateralized by numerous real properties. Loans under the facility bear interest at either LIBOR plus 2.50% or the prime rate, at the borrower's option. From February 2002 through September 2003, LIBOR was capped at 4.5% through an interest rate cap agreement. No additional cap agreements were put into place after September 2003.
- (k) In August and November 2000, JER FP entered into two CMBS repurchase agreements with Credit Suisse First Boston. The repurchase pricing rate is based on LIBOR plus 0.50%. In July 2003 the debt was repaid in full.
- (l) In October 2000, a loan was obtained to purchase an office building in Chicago, Illinois. In June 2003, the loan was refinanced, extending the maturity to June 2013 at a fixed rate of 7.16%. In August 2003, the asset was sold and the loan was assumed by the purchaser.
- (m) In March 1999, a subsidiary of the Partnerships obtained \$28 million in short-term financing to replace acquisition financing. In November 2001, the loan was reduced to approximately \$14.6 million and the interest rate was increased from LIBOR plus 1.3% to LIBOR plus 1.5%. The loan was interest only and was collateralized by property in Washington, DC. In February 2003, the asset was sold and the loan was repaid.
- (n) In November 2001, a subsidiary of the Partnerships obtained a construction loan with a maximum availability of \$67.5 million. The loan was collateralized by property in Washington, DC. Interest on the loan was based on LIBOR plus 2.0% and there was an interest rate cap agreement in place that limited LIBOR to 6.0%. In February 2003, the asset was sold and the loan was repaid.
- (o) The Partnerships are a guarantor for the debt; however, recourse to the Partnerships is limited to standard carve-outs related to losses arising as a result of fraud, gross negligence, willful misconduct, or intentional misrepresentation. As of December 31, 2003, no amounts are due and management does not expect payments to be required under the guaranty.
- (p) The loans are non-recourse to the Partnerships.

JER Fund I

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

6. DEBT OBLIGATIONS (continued)

Minimum principal repayments for the years ended December 31 are as follows:

2004	\$ 13,350,784
2005	9,950,160
2006	7,473,270
2007	8,326,850
2008	153,849
Thereafter	<u>4,928,730</u>
Total	<u>\$44,183,643</u>

Projected principal payments on the Secured Notes are based on the assumption that each of the underlying CMBS will pay the remaining principal and interest in accordance with its terms and that there will be no defaults or prepayments on the underlying loans. To the extent that actual cash flows differ, there would be changes in the timing of principal payments.

The Partnership Agreements contain limitations on indebtedness incurred by the Partnerships and their affiliates. In general and subject to certain exceptions, these provisions require that once a year between August 1 and August 30, the aggregate indebtedness of the Partnerships and their affiliates not exceed 40% of the cost of the underlying investments (the "Leverage Ratio"). As of August 30, 2003, the Partnerships' Leverage Ratio was 41.9%. The Leverage Ratio is a result of the Partnerships having disposed of a substantial majority of their investments and the result of indebtedness on remaining leveraged investments generally cannot be reduced without an economic premium or penalty. In 2004, the General Partner intends to request a leverage limitation waiver on existing indebtedness of the Partnerships from the Investment Advisory Committee of the Partnerships.

7. PARTNER'S CAPITAL

The original capital commitment of the Partners was \$435,064,935; however an additional \$70,074,766 was returned to the Partners during the investment period and subsequently recalled for new investments. Therefore, the total capital called by the Fund was \$505,139,701. At December 31, 2003 and 2002, the Partnerships had Unpaid Capital Commitments from its Partners aggregating \$64,351,512. The Commitment Period ended January 31, 2001, however, such Unpaid Capital Commitments may be called by the General Partner with fourteen days notice subject to certain restrictions. Of the Unpaid Capital Commitments, the full amount may be called to pay down debt which was outstanding on January 31, 2001.

JER Fund I

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

8. GAIN (LOSS) ON INVESTMENTS

For the years ended December 31, 2003 and 2002 unrealized gain (loss) on investments comprised:

	<u>2003</u>	<u>2002</u>
Reversal from Unrealized Gain (Loss) to Realized Gain (Loss) for Sold Assets	\$ (29,605,693)	\$ 2,044,191
Reversal from Unrealized Loss to Realized Loss for Asset Write Off	18,500,813	-
Currency Gain on Revaluation of Foreign Investments	2,438,451	3,584,581
Fair Value adjustment on Investments	(22,051,505)	22,821,072
Unrealized (Losses) Gains on Investments	<u>\$ (30,717,934)</u>	<u>\$ 28,449,844</u>

For the years ended December 31, 2003 and 2002 realized gain on investments comprised:

	<u>2003</u>	<u>2002</u>
Realized Gain on Sold Assets	\$ 29,885,035	\$ 14,348,371
Realized Loss on Asset Write Off	(18,500,813)	-
Currency Loss on Revaluation	(1,121,571)	(1,418,017)
Realized Gain on Investments	<u>\$ 10,262,651</u>	<u>\$ 12,930,354</u>

9. RELATED PARTY TRANSACTIONS

The Partnerships have retained an affiliate of the General Partner as the asset manager for their investments. Asset management fees are calculated at 1.35% of the cost of the underlying assets. For the years ended December 31, 2003 and 2002, the affiliate earned asset management fees of \$3,964,990 and \$6,769,676 respectively, including \$1,599,760 and \$1,676,356, respectively, which were billed to unconsolidated investments and are reflected as part of the equity in earnings of these unconsolidated investments. At December 31, 2003 and 2002, \$294,035 and \$409,048 respectively, related to the consolidated and unconsolidated investments, were unpaid and included in accounts payable and accrued expenses in the accompanying consolidated and combined statements of assets, liabilities and partners' capital.

For the years ended December 31, 2003 and 2002, an affiliate of the General Partner also incurred certain costs to be reimbursed by the Partnerships and its subsidiaries in connection with legal, accounting support and other expenses aggregating \$801,546 and \$767,296, respectively. For the years ended December 31, 2003 and 2002, there were no reimbursements from the Partnerships for consummated or unconsummated investment transactions. Reimbursements paid to the affiliate of the General Partner in connection with legal, accounting and other costs are included in administrative expenses. At December 31, 2003 and 2002, accrued and unpaid reimbursable costs included in accounts payable and accrued expenses totaled \$267,758 and \$80,808 respectively.

JER Fund I

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

9. RELATED PARTY TRANSACTIONS (continued)

The General Partner was entitled to receive a Management Fee equal to a percentage of the Capital Commitments during the Commitment Period. After the Commitment Period and until termination of the Partnership, the fee is based on a percentage of Capital under Management. For the years ended December 31, 2003 and 2002, the Limited Partners paid Management Fees of \$1,011,868 and \$1,835,807, respectively. The Management Fees were net of Placement Fees of \$0 and \$1,036,573 in 2003 and 2002, respectively, and 80% of Designated Fees, as defined in the Partnership Agreement, totaling \$699,461 and \$361,408 in 2003 and 2002, respectively. Management Fees are not an expense of the Partnerships as they are paid directly by the Limited Partners to the General Partner.

The Fund co-invests in certain real estate and real estate related investments with entities affiliated with the General Partner. The economic terms of the ownership structure are the same in all material respects. The fair value of the Fund's interest in these co-owned investments with JER Fund II at December 31, 2003 and 2002 was \$37,968,163 and \$54,288,616, respectively. The general partner owns general and limited partner interests in the Partnerships. As of December 31, 2003, the General Partner holds \$4,646,578, or 2.999%, of the Partnerships' capital.

10. FINANCIAL HIGHLIGHTS

The following financial highlights are being presented in accordance with the provisions of the AICPA Audit and Accounting Guide for Investment Companies, as amended by AICPA SOP 03-4 for the year ended December 31, 2003:

Ratio to Weighted Average Limited Partners' Capital:

Net investment income ⁽¹⁾	<u>20.86%</u>
Expenses ⁽²⁾	(1.28%)
Incentive allocation ⁽³⁾	<u>(4.84%)</u>
Total expenses and incentive allocation	<u>(6.12%)</u>

Total Return:

Total return before incentive allocation ⁽⁴⁾	<u>8.08%</u>
Incentive allocation ⁽⁵⁾	<u>(4.77%)</u>
Total return after incentive allocation	<u>3.03%</u>

- (1) Net investment income for purposes of this calculation includes income adjusted for minority interest before net realized and unrealized gains (losses). Net investment income does not include Management Fees or Carried Interest but does include due diligence costs on unconsummated transactions and Fund level administrative expenses. Net investment income is presented on an annualized basis.
- (2) Expenses for the purpose of this calculation include Management Fees paid directly by Limited Partners, prior to the offset for Designated Fees, due diligence costs on unconsummated transactions and Fund level administrative expenses on an annualized basis.
- (3) Represents Carried Interest paid to the General Partner as further disclosed in Note 3 of the accompanying consolidated and consolidated and combined financial statements as a percent of weighted average Limited Partners' capital. Carried Interest is nonrecurring in nature and has, accordingly, not been annualized.
- (4) Total returns have been calculated for the Limited Partners as a class. An individual investor's return may vary from these returns due to individual circumstances.
- (5) Represents Carried Interest paid to the General Partner as a percent of the Limited Partners' capital balance at the beginning of the year.

JER Fund I

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

11. SCHEDULES OF INVESTMENTS

The following schedules of investments as of December 31, 2003 and 2002, respectively, are being presented in accordance with the provisions of the AICPA Audit and Accounting Guide for Investment Companies, as amended by AICPA SOP 03-4.

Investments	JER Ownership %	Product Type	Acquisition Date	As of December 31, 2003		% of Total Fair Value
				Cost ⁽¹⁾	Fair Value ⁽²⁾	
Canada						
CMBS:						
Merrill-Canada 3 Bonds	100.00%	Mixed	5/30/2000	\$ 4,020,739	\$ 4,008,410	2.1%
Total Canada				4,020,739	4,008,410	2.1%
United States						
Real Estate (Consolidated):						
1860 Lincoln Street	100.00%	Office	12/3/1997	27,418,897	23,912,846	12.5%
Blossom Business Park	100.00%	Industrial	10/7/1998	10,942,383	10,942,383	5.7%
Subtotal				38,361,280	34,855,229	18.2%
CMBS:						
CSFB 2001 - FL1 Bonds	100.00%	Mixed	12/15/2000	13,303,455	14,289,462	7.5%
DLJ 2000 - STF1 Bonds	100.00%	Mixed	8/15/2000	3,362,065	3,728,518	2.0%
MD3 Bonds (held by trust)	100.00%	Mixed	12/16/1999	23,585,396	25,466,746	13.4%
Midland 96 C2 Bonds (held by trust)	100.00%	Mixed	10/19/1999	1,257,757	1,165,948	0.6%
MS RR 97 Bonds (held by trust)	100.00%	Other	8/4/1999	5,676,092	6,855,881	3.6%
REIT 1999 Bonds (held by trust)	100.00%	Other	5/27/1999	11,300,874	11,735,814	6.2%
REIT 2000 Bonds (held by trust)	100.00%	Other	4/16/2000	3,408,449	3,691,802	1.9%
Salomon 96 C1 Bonds (held by trust)	100.00%	Mixed	4/22/1999	2,532,248	2,444,667	1.3%
SASCO Bonds F&H (held by trust)	100.00%	Mixed	1/5/1998	914,972	2,226,403	1.2%
SASCO Bonds G&H (held by trust)	100.00%	Mixed	10/1/1997	58,228	1,163,052	0.6%
SPICE Bonds (held by trust)	100.00%	Mixed	12/4/1997	15,547,052	22,911,755	12.0%
CDO Equity Certificate ⁽³⁾	100.00%	Mixed	9/19/2002	-	-	-
Subtotal				80,946,588	95,680,048	50.3%
Investment in Unconsolidated Entities (Equity Method):						
Austin Technology Park	24.07%	Office	12/28/1999	14,758,365	14,758,365	7.7%
Brauvin Capital I	24.69%	Retail	8/7/2000	3,830,807	3,830,807	2.0%
Brauvin Capital II	23.99%	Retail	1/25/2001	2,681,102	2,681,102	1.4%
Hudson Housing	68.30%	Other	2/11/1998	4,007,594	-	0.0%
One Kendall Square	48.50%	Office	12/28/2000	24,246,359	16,697,889	8.8%
One Market Street	22.62%	Office	4/15/1998	1,355,255	5,125,914	2.6%
Subtotal				50,879,482	43,094,077	22.5%
Loans:						
Hudson Housing	85.73%	Other	10/15/2000	2,801,793	2,801,793	1.5%
Subtotal				2,801,793	2,801,793	1.5%
Total United States				172,989,143	176,431,147	92.5%
Europe						
Investment in Unconsolidated Entities (Equity Method):						
ISM	20.00%	Other	9/30/1998	13,759,220	10,272,729	5.4%
Total Europe				13,759,220	10,272,729	5.4%
Total Investments				\$ 190,769,102	\$ 190,712,286	100.0%

(1) Represents historical cost, which includes capitalized interest, acquisition cost, discount accretion/amortization and equity in earnings of unconsolidated entities.

(2) See Note 2 to the financial statements.

(3) For GAAP purposes, the CDO transaction was accounted for as a financing, therefore, the cost of the Equity Certificates is included in the assets contributed to the Trust.

JER Fund I

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

11. SCHEDULES OF INVESTMENTS (continued)

Investments	JER Ownership %	Product Type	Acquisition Date	As of December 31, 2002		% of Total Fair Value
				Cost ⁽¹⁾	Fair Value ⁽²⁾	
Canada						
CMBS:						
Merrill-Canada 3 Bonds	100.00%	Mixed	5/30/2000	\$ 3,395,934	\$ 3,740,898	0.9%
Total Canada				3,395,934	3,740,898	0.9%
Mexico						
Loan:						
Inverprim	50.00%	Other	10/14/1998	5,436,708	-	0.0%
Total Mexico				5,436,708	-	0.0%
United States						
Real Estate (Consolidated):						
1860 Lincoln Street	100.00%	Office	12/3/1997	27,406,051	25,000,000	6.0%
Blossom Business Park	100.00%	Industrial	10/7/1998	10,743,352	10,743,352	2.6%
701 & 705 Lee Street	75.00%	Office	12/22/1997	10,452,382	10,452,382	2.5%
Potomac Center	48.75%	Industrial/Flex	12/3/1998	105,778,935	134,490,000	32.1%
Shady Grove	95.00%	Office	10/1/1998	9,655,647	7,157,895	1.7%
Subtotal				164,036,367	187,843,629	44.9%
CMBS:						
Chase SNI Bonds	100.00%	Mixed	6/22/1998	296,379	119,061	0.0%
CSFB 2001 - FL1 Bonds	100.00%	Mixed	12/15/2000	18,511,062	21,751,471	5.2%
DLJ 2000 - STF1 Bonds	100.00%	Mixed	8/15/2000	10,380,624	11,865,974	2.8%
95 AEW Bonds (held by trust)	100.00%	Mixed	8/20/1999	9,703,194	12,000,890	2.9%
MD3 Bonds (held by trust)	100.00%	Mixed	12/16/1999	22,787,764	24,896,748	5.9%
Midland 96 C2 Bonds (held by trust)	100.00%	Mixed	10/19/1999	1,309,397	1,773,134	0.4%
MS RR 97 Bonds (held by trust)	100.00%	Other	8/4/1999	5,319,026	6,691,277	1.6%
REIT 1999 Bonds (held by trust)	100.00%	Other	5/27/1999	10,540,793	11,613,940	2.8%
REIT 2000 Bonds (held by trust)	100.00%	Other	4/16/2000	3,232,440	3,596,766	0.9%
Salomon 96 C1 Bonds (held by trust)	100.00%	Mixed	4/22/1999	3,773,025	2,184,177	0.5%
SASCO Bonds F&H (held by trust)	100.00%	Mixed	1/5/1998	3,603,563	6,107,742	1.5%
SASCO Bonds G&H (held by trust)	100.00%	Mixed	10/1/1997	4,474,354	8,225,212	2.0%
SPICE Bonds (held by trust)	100.00%	Mixed	12/4/1997	13,356,443	21,082,064	5.0%
CDO Equity Certificate (3)	100.00%	Mixed	9/19/2002	-	-	0.0%
Subtotal				107,288,064	131,908,456	31.5%
Investment in Unconsolidated Entities (Equity Method):						
55 West Wacker	46.25%	Office	10/5/2000	2,953,294	2,953,294	0.7%
Austin Technology Park	24.07%	Office	12/28/1999	14,199,909	14,199,909	3.4%
Brauvn Capital I	24.69%	Retail	8/7/2000	5,192,598	5,192,598	1.2%
Brauvn Capital II	24.55%	Retail	1/25/2001	5,510,315	5,510,315	1.3%
Hudson Housing	68.30%	Other	2/11/1998	-	-	0.0%
IBM Plaza	30.00%	Office	6/5/1998	4,063,319	1,500,000	0.4%
One Kendall Square	48.50%	Office	12/28/2000	20,579,411	26,432,500	6.3%
One Market Street	22.62%	Office	4/15/1998	2,544,479	5,125,915	1.2%
Subtotal				55,043,325	60,914,531	14.5%
Loans:						
Hudson Housing	85.73%	Other	10/15/2000	2,395,086	2,395,086	0.6%
Bannockburn I Loan (paid off)	100.00%	Office	8/21/1998	-	2,900,000	0.7%
Mid-Point Technology Park (write off)	66.67%	Mixed	11/21/1997	-	-	0.0%
Subtotal				2,395,086	5,295,086	1.3%
Total United States				328,762,842	385,961,702	92.2%
Europe						
Investment in Unconsolidated Entities (Equity Method):						
ISM	20.00%	Other	9/30/1998	30,523,559	28,920,052	6.9%
Total Europe				30,523,559	28,920,052	6.9%
Total Investments				\$ 368,119,043	\$ 418,622,652	100.0%

(1) Represents historical cost, which includes capitalized interest, acquisition cost, discount accretion/amortization and equity in earnings of unconsolidated entities.

(2) See Note 2 to the financial statements.

(3) For GAAP purposes, the CDO transaction was accounted for as a financing, therefore, the cost of the Equity Certificates is included in the assets contributed to the Trust.

Supplementary Schedules
(Unaudited)

JER Fund I
Compliance With Leverage Guidelines ⁽¹⁾
As of December 31, 2003
(unaudited)

Investments	Date Closed	JER Equity Ownership %	JER Total Cost	JER Total Debt ⁽²⁾
Real Estate Assets				
1860 Lincoln Street	12/3/1997	100.00%	\$ 27,418,896	\$ -
Blossom Business Park	10/7/1998	100.00%	10,942,384	5,577,496
CMBS				
CSFB 2001 - FL1 Bonds	12/15/2000	100.00%	7,727	-
DLJ 2000 - STF1 Bonds	8/15/2000	100.00%	34,393	-
Merrill-Canada 3 Bonds	5/30/2000	100.00%	3,309,753	3,404,869
Other				
Austin Technology Park	12/28/1999	24.07%	20,342,028	8,135,535
Brauvin Capital I	8/7/2000	24.69%	3,034,062	-
Brauvin Capital II	1/25/2001	23.99%	6,051,991	2,163,390
Hudson Housing	2/11/1998	68.30%	6,942,946	2,156,297
ISM	9/30/1998	20.00%	5,057,322	-
One Kendall Square	12/28/2000	48.50%	100,142,306	77,600,000
One Market Street	4/15/1998	22.62%	13,743,795	13,978,433
JER CDO 2002-1 Trust Equity Certificates ⁽³⁾	9/26/2002	100.00%	52,434,245	-
Cash		100.00%	4,228,872 ⁽⁴⁾	-
			Total Fund (A) \$ 253,690,720	(B) \$ 113,016,020

Aggregate Portfolio Leverage Ratio (B divided by A)

44.55%

Notes:

- (1) Pursuant to Section 4.2(c) of the Partnership Agreement.
- (2) Debt reflects the JER Fund's pro rata share of third party debt.
- (3) For purposes of compliance with leverage guidelines, the CDO transaction is treated as a sale since the Trust is the sole obligor under the Secured Notes and the transferred assets within the Trust are the sole source of repayment of the Secured Notes. The cost basis of the Equity Certificates which were retained is included above.
- (4) Outstanding cash is net of minority interest cash balance.

**Schedule of Fees and Reimbursements Received by the General Partner or any of its Affiliates
For the Years Ended December 31, 2003 and 2002
Cash Basis**

(unaudited)

	<u>2003</u>	<u>2002</u>
Management Fee ⁽¹⁾	<u>\$1,011,868</u>	<u>\$1,835,807</u>
Asset Management Fees ⁽²⁾	<u>\$4,080,003</u>	<u>\$7,068,060</u>
Reimbursement of JER Costs ⁽³⁾	<u>\$ 614,596</u>	<u>\$ 790,512</u>
Other Fees ⁽⁴⁾	<u>\$ 31,112</u>	<u>\$ 293,014</u>

Notes:

- (1) The Management Fee is calculated in accordance with Section 6.2 of the Partnership Agreement, and is net of 80% of Designated Fees and 100% of Placement Fees paid to Merrill Lynch. After the Commitment Period until termination of the Partnership, the fee is based on a percentage of capital under management. Designated Fees paid in 2003 and 2002 were \$699,461 and \$361,408 respectively, and Placement Fees paid to Merrill Lynch in 2003 and 2002 were \$0 and \$1,036,573, respectively.
- (2) Asset Management Fees are calculated in accordance with Section 6.3(c) of the Partnership Agreement.
- (3) Represents reimbursements for \$116,534 and \$323,224 in legal support, \$253,007 and \$450,931 in accounting support and \$245,055 and \$27,588 in other costs for 2003 and 2002, respectively.
- (4) Represents fees paid to an affiliate of the General Partner with respect to the Inverprim investment. Additionally included are \$31,112 and \$48,668 reimbursed in 2003 and 2002, respectively, to the General Partner for administrative expenses related to JER Hudson Housing for services that would typically be outsourced to third parties.

JER Real Estate Partners, LP
JER Real Estate Qualified Partners, LP
Schedule of Changes in Partners' Capital Accounts
For the Year Ended December 31, 2003
(unaudited)

JER Real Estate Partners, L.P.

	Ownership Percentage	Balance at December 31, 2002	Net Income	Distributions	Balance at December 31, 2003
Allstate Insurance Company	15.59534%	\$ 14,163,677	\$ 318,134	\$ (5,581,868)	\$ 8,899,943
BancBoston Investments, Inc.	9.35720%	8,498,204	190,880	(3,349,121)	5,339,963
Burgundy, Inc.	9.35720%	8,498,204	190,880	(3,349,121)	5,339,963
Competrol Real Estate Limited	6.23813%	5,665,474	127,253	(2,232,747)	3,559,980
Greenwood Properties Corporation	9.35720%	8,498,204	190,880	(3,349,121)	5,339,963
International Bank for Reconstruction and Development, for its Staff Retirement Plan	9.35720%	8,498,204	190,880	(3,349,121)	5,339,963
JER Excepted Investors	6.23813%	5,665,473	314,159	(2,419,651)	3,559,981
Massachusetts Mutual Life Insurance Company	9.35720%	8,498,204	190,880	(3,349,121)	5,339,963
New York Life Insurance Company	9.35720%	8,498,204	190,880	(3,349,121)	5,339,963
Wells Fargo & Company	9.35720%	8,498,204	190,880	(3,349,121)	5,339,963
JER Real Estate Advisors, L.P.	6.42799%	5,837,893	7,701,157	(9,870,729)	3,668,321
Total JER Real Estate Partners, L.P.	100.00000%	\$ 90,819,945	\$ 9,796,863	\$ (43,548,842)	\$ 57,067,966

JER Real Estate Qualified Partners, L.P.

Fresno County Employees' Retirement Association	3.63953%	\$ 5,665,908	\$ 127,253	\$ (2,232,747)	\$ 3,560,414
Oregon Public Employees' Retirement Fund	31.66866%	49,300,770	1,124,809	(19,445,340)	30,980,239
Virginia Retirement System	27.29649%	42,494,321	969,519	(16,760,722)	26,703,118
Washington State Investment Board	36.39532%	56,659,093	1,301,988	(22,356,926)	35,604,155
JER Real Estate Advisors, L.P.	1.00000%	1,556,766	2,053,473	(2,631,982)	978,257
Total JER Real Estate Qualified Partners, L.P.	100.00000%	\$ 155,676,858	\$ 5,577,042	\$ (63,427,717)	\$ 97,826,183

Total

100.00000%	\$ 246,496,803	\$ 15,373,905	\$ (106,976,559)	\$ 154,894,149
-------------------	-----------------------	----------------------	-------------------------	-----------------------

JER Excepted Investors
Schedule of Changes in Partners' Capital Accounts
For the Year Ended December 31, 2003
(unaudited)

JER Excepted Investors

	Ownership Percentage	Balance at December 31, 2002	Net Income	Distributions	Balance at December 31, 2003
John W. Berry 1998 Amended Revocable Trust	0.62381%	\$ 566,548	\$ 31,416	\$ (241,965)	\$ 355,999
Checchi Trust (FBO Adam, Kristin and Kathryn Checchi)	0.62381%	566,548	31,416	(241,965)	355,999
Colfax Towers, Inc.	2.80716%	2,549,464	141,371	(1,088,843)	1,601,992
Donald W. Crocker and Mary Louise Crocker Trust B	0.31191%	283,271	15,709	(120,983)	177,997
Frederic V. Malek	0.62381%	566,548	31,416	(241,965)	355,999
Norman and Ruth Rales	1.24763%	1,133,094	62,831	(483,930)	711,995
Total JER Excepted Investors	6.23813%	\$ 5,665,473	\$ 314,159	\$ (2,419,651)	\$ 3,559,981

Certifications

JER Real Estate Advisors, Inc., the sole General Partner of JER Real Estate Advisors, L.P., the sole General Partner of the Partnerships, hereby certifies as follows:

- (a) no event has occurred which has caused the obligation of the Limited Partners to make Capital Contributions to be suspended;
- (b) no material breach by the General Partner of any covenant, representation or warranty of the Partnership Agreement has occurred or is continuing.

By: JER Real Estate Advisors, L.P.,
As General Partner

By: JER Real Estate Advisors, Inc.,
Its General Partner

By: David B. Kay

Name: David B. Kay

Title: Chief Financial Officer

JER Fund II

**Annual Report
December 31, 2003**

JER Fund II

Table of Contents

December 31, 2003

Report of Independent Auditors	1
Consolidated and Combined Financial Statements	
Consolidated and Combined Statements of Assets, Liabilities and Partners' Capital	3
Consolidated and Combined Statements of Operations	4
Consolidated and Combined Statements of Changes in Partners' Capital	5
Consolidated and Combined Statements of Cash Flows	6
Notes to Consolidated and Combined Financial Statements	7
Supplemental Schedules (unaudited)	
Compliance with Leverage Guidelines	30
Schedule of Fees and Reimbursements by the General Partner or any of its Affiliates	31
Schedule of Changes in Partners' Capital Accounts	32
Certifications	34

Report of Independent Auditors

To the General Partner and Limited Partners
JER Real Estate Partners II, L.P.,
JER Real Estate Partners II-A, L.P. and
JER Real Estate Qualified Partners II, L.P.

We have audited the accompanying consolidated and combined statements of assets, liabilities, and partners' capital of JER Real Estate Partners II, L.P., JER Real Estate Partners II-A, L.P. and JER Real Estate Qualified Partners II, L.P. (collectively, JER Fund II), including the schedule of investments, as of December 31, 2003 and 2002, and the related consolidated and combined statements of operations, cash flows, and changes in partners' capital for the years then ended. These financial statements are the responsibility of the General Partner. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the historical cost basis financial statements as of December 31, 2003 and for the year then ended of International Gateway I, LLC (International Gateway), a 97.3 percent owned subsidiary, which statements reflect total assets and revenues constituting 6.9 percent and 11.4 percent, respectively, of the related consolidated and combined totals. We did not audit the historical cost basis financial statements as of December 31, 2003 and for the year then ended of Benchmark JER 1 and Benchmark JER 2 L.P., One Kendall Square Investors LLC and Resolution/Blackstone/JER L.P., (collectively referred to as the Investments), 32.69 percent, 48.5 percent, and 20.78 percent, respectively, equity method investments, which JER Fund II's investment in and equity in earnings reflect 9.8 percent and 21.2 percent, respectively, of the related consolidated and combined total assets and net investment income, respectively. We did not audit the historical cost basis financial statements as of December 31, 2003 and 2002 and for the years then ended of Arrow Allied London Investments Ltd (Allied London), a 29.96 percent equity method investment, which JER Fund II's investment in and equity in earnings reflect 5.81 percent and 3.92 percent, respectively, of the related consolidated and combined total assets and 25.3 percent and 1.3 percent, respectively, of the related consolidated and combined net investment income at December 31, 2003 and 2002, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for International Gateway, Allied London, and the Investments is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of JER Fund II as of December 31, 2003 and 2002, the results of its operations, its cash flows, and changes in its partners' capital for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

March 12, 2004

JER Fund II

Consolidated and Combined Statements of Assets, Liabilities, and Partners' Capital

	December 31,	
	<u>2003</u>	<u>2002</u>
Assets		
Real Estate Assets	\$ 689,587,778	\$ 664,993,148
Investment in Unconsolidated Entities	135,087,647	147,516,955
CMBS and Other Securities	109,812,420	144,500,410
Loans and Notes Receivable	-	586,182
Cash and Cash Equivalents	24,057,463	20,411,032
Restricted Cash	20,300,524	58,555,592
Accounts Receivable	6,529,880	11,518,784
Prepaid Expenses	1,612,304	1,902,602
Accrued Interest Receivable	1,287,012	1,612,365
Other Assets	<u>3,850,675</u>	<u>3,531,729</u>
Total Assets	<u>\$ 992,125,703</u>	<u>\$ 1,055,128,799</u>
Liabilities and Partners' Capital		
Credit Facility	\$ 11,000,000	\$ 59,500,000
Loans Payable	489,423,537	446,133,495
Repurchase Obligations	71,291,797	75,561,230
Accounts Payable and Accrued Expenses	28,037,740	22,998,735
Security Deposits and Escrow Payable	4,545,367	4,845,628
Unearned Rent	<u>583,527</u>	<u>1,929,443</u>
Total Liabilities	604,881,968	610,968,531
Minority Interests	43,407,120	55,753,391
Partners' Capital	<u>343,836,615</u>	<u>388,406,877</u>
Total Liabilities and Partners' Capital	<u>\$ 992,125,703</u>	<u>\$ 1,055,128,799</u>

See Accompanying Notes

JER Fund II

Consolidated and Combined Statements of Operations

	For the Years Ended December 31,	
	<u>2003</u>	<u>2002</u>
Revenues		
Interest Income	\$ 21,135,344	\$23,002,702
Rental Income	66,242,388	64,095,682
Equity in Earnings of Unconsolidated Entities	12,915,824	10,336,726
Other Income	656,919	696,082
Total Revenues	<u>100,950,475</u>	<u>98,131,192</u>
Expenses		
Interest Expense	24,027,150	23,248,309
Property Operating Expenses	22,258,275	21,086,587
Asset Management Fees	14,205,966	13,966,780
Administrative Expenses	6,883,964	6,024,503
Due Diligence Costs on Unconsummated Transactions	1,726,340	1,822,506
Total Expenses	<u>69,101,695</u>	<u>66,148,685</u>
Net Investment Income	31,848,780	31,982,507
Net Realized Gains	8,118,812	20,971,920
Net Unrealized Losses	(36,378,527)	(11,658,411)
Income before Minority Interests	<u>3,589,065</u>	<u>41,296,016</u>
Minority Interests	<u>(11,912,192)</u>	<u>(7,528,698)</u>
Net Income (Loss)	<u>\$ (8,323,127)</u>	<u>\$33,767,318</u>

See Accompanying Notes

JER Fund II

Consolidated and Combined Statements of Changes in Partners' Capital For the Years Ended December 31, 2003 and 2002

	General Partner	Limited Partners	Total
Balance at December 31, 2001	\$ 6,791,799	\$ 398,125,881	\$ 404,917,680
Contributions	1,861,840	109,138,160	111,000,000
Distributions	(4,959,633)	(156,318,488)	(161,278,121)
Net Income	<u>2,820,854</u>	<u>30,946,464</u>	<u>33,767,318</u>
Balance at December 31, 2002	6,514,860	381,892,017	388,406,877
Contributions	1,006,399	58,993,601	60,000,000
Distributions	(1,614,385)	(94,632,750)	(96,247,135)
Net Loss	<u>(139,604)</u>	<u>(8,183,523)</u>	<u>(8,323,127)</u>
Balance at December 31, 2003	<u>\$ 5,767,270</u>	<u>\$ 338,069,345</u>	<u>\$ 343,836,615</u>

See Accompanying Notes

JER Fund II

Consolidated and Combined Statements of Cash Flows

	For the Years	
	Ended December 31,	
	<u>2003</u>	<u>2002</u>
Operating Activities		
Net Income (Loss)	\$ (8,323,127)	\$ 33,767,318
Activities:		
Net Realized and Unrealized Gains (Losses)	28,259,715	(9,313,509)
Equity in Earnings of Unconsolidated Entities	(12,915,824)	(10,336,726)
(Accretion)/Amortization	(1,730,199)	(2,426,676)
Currency Translation	(27,139,135)	(30,197,642)
Minority Interests	11,912,192	7,528,698
Changes in Operating Assets and Liabilities:		
Increase in Prepaid Expenses, Accrued Interest		
Receivable, and Other Assets	(2,572,502)	21,368,192
Increase in Accounts Payable and Accrued Expenses	23,832,345	6,389,000
Decrease in Unearned Rent	(1,345,916)	(18,092)
Net Cash Provided by Operating Activities	<u>9,977,549</u>	<u>16,760,563</u>
Investing Activities		
Investment in Loans, Notes Receivable and CMBS and Other Securities	(3,424,050)	(52,915,005)
Investment in Real Estate Assets	(89,212,212)	(206,878,468)
Investment in Unconsolidated Entities	(22,654,709)	(78,639,842)
Decrease (Increase) in Restricted Cash	38,214,000	(50,653,130)
(Decrease) Increase in Escrow Payable and Security Deposits	(240,166)	3,159,985
Principal Payments from Loans, Notes Receivable		
and Marketable Securities	37,704,481	85,250,948
Proceeds from Sales of Real Estate Assets and Investments in		
Unconsolidated Entities	74,992,195	160,192,217
Distributions from Unconsolidated Entities	18,630,252	37,535,340
Net Cash Provided by (Used in) Investing Activities	<u>54,009,791</u>	<u>(102,947,955)</u>
Financing Activities		
Partners' Capital Contributions	60,000,000	111,000,000
Minority Interest Contributions	1,714,364	24,125,415
Distributions to Partners	(96,247,135)	(161,278,121)
Distributions to Minority Interests	(21,856,854)	(34,948,817)
Proceeds from Credit Facility, Loans Payable and Repurchase Obligations	237,243,073	294,586,797
Repayments of Principal under Credit Facility, Loans Payable and		
Repurchase Obligations	(241,194,357)	(143,889,592)
Net Cash (Used in) Provided by Financing Activities	<u>(60,340,909)</u>	<u>89,595,682</u>
Net Increase in Cash and Cash Equivalents	3,646,431	3,408,290
Cash and Cash Equivalents, Beginning of Year	20,411,032	17,002,742
Cash and Cash Equivalents, End of Year	<u>\$ 24,057,463</u>	<u>\$ 20,411,032</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest expense	<u>\$ 29,792,987</u>	<u>\$ 20,623,968</u>

See Accompanying Notes

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

1. ORGANIZATION AND BUSINESS PURPOSE

JER Real Estate Partners II, L.P., JER Real Estate Partners II-A, L.P. and JER Real Estate Qualified Partners II, L.P. (collectively, the "Partnerships" and the "Fund") were formed as limited partnerships under the Delaware Revised Uniform Limited Partnership Act for the purpose of investing in real property and real estate related assets and securities. The Partnerships are governed by three separate Amended and Restated Limited Partnership Agreements, two of which are dated as of May 27, 1999 and the third of which is dated December 15, 1999 (the "Partnership Agreements"). The term of the Partnerships will expire on March 30, 2008 unless terminated earlier or extended in accordance with the provisions of the Partnership Agreements. Capitalized terms used herein are defined in the Partnership Agreements unless otherwise indicated.

The general partner of the Partnerships is JER Real Estate Advisors II, L.P. (the "General Partner"). The management, control, operation and the determination of policy with respect to the Partnerships are vested exclusively in the General Partner.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated and combined financial statements have been prepared using the fair value basis of accounting. The presentation of the financial statements reflects the Fund's assets and liabilities at fair value consistent with the reporting required by the American Institute of Certified Public Accountants ("AICPA") Investment Company Audit Guide. The classification of the Fund's investments follows accounting principles proscribed by Accounting Principles Board ("APB") Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock" and Statement of Position ("SOP") 78-9, "Accounting for Investments in Real Estate Ventures." The Fund's investments in real estate (1) are consolidated if the Fund exercises control over the entity or operation, or (2) accounted for under the equity method if the Fund exercises significant influence, or (3) the cost method is used if the investment represents a nominal interest in the entity or operation and it is not significantly influenced by the Fund. The Fund records their share of net earnings or losses from the equity method investments reduced by distributions from the equity method investments.

Principles of Consolidation and Combination

The consolidated and combined financial statements include the accounts of the Partnerships due to co-investment in the same investments generally on the same economic terms. All majority-owned and controlled subsidiaries are consolidated and the outside investors' interests are reflected as minority interest. All significant intercompany transactions have been eliminated.

Valuation of Assets and Liabilities

Assets and liabilities, including hedge positions, are stated at fair value as determined by the General Partner with any resulting change in value being recorded as unrealized gains or losses in the accompanying consolidated and combined statements of income.

In applying the fair value basis of accounting to real estate investments, the General Partner generally does not mark-up assets from historical cost (which excludes the effects of depreciation and amortization), unless management's assessment of fair value is collaborated through third party evidence, such as a signed letter of intent, a purchase and sale agreement, an appraisal, or another capital event that supports a mark-up. A mark down from cost would take place when the General Partner believes that a

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

material deterioration in the operating results, market conditions, or other factors that impact the property's value has occurred.

In determining fair value for real estate investments, investments in unconsolidated entities (all of which are real estate related) and real estate related loans and notes receivable, the General Partner uses discounted projected cash flows, including principal and interest from debt obligations, which are based on the General Partner's business plans for managing each asset. The General Partner uses discount rates appropriate to a potential investor's expected return, given the perceived risk if they were to purchase the asset as of the balance sheet date. The discount rates that have been used by the General Partner range between 16% and 24%. In some cases, third party appraisals of real estate assets have been received, and these values along with the assumptions in the appraisal are considered in arriving at the asset's fair value.

Due to the inherent uncertainties of asset and liability valuations, the estimated fair values reflected in the accompanying consolidated and combined financial statements may differ significantly from values that would be determined by negotiation between parties in a sales transaction. In addition, future unforeseen events, either specific events affecting the asset or macro economic events, could significantly affect the values reported in the accompanying financial statements.

The following table reflects the historical cost basis of accounting of the Fund's real estate investments (excluding depreciation and amortization, and including capitalized interest, discount accretion and equity in earnings, if applicable) as compared to fair value.

	As of December 31, 2003		As of December 31, 2002	
	Cost	Fair Value	Cost	Fair Value
Real Estate Assets	\$684,602,028	\$689,587,778	\$665,750,296	\$664,993,148
Investment in Unconsolidated Entities	206,698,445	135,087,647	173,013,138	147,516,955
Loans and Notes Receivable	-	-	586,182	586,182
Total	<u>\$891,300,473</u>	<u>\$824,675,425</u>	<u>\$839,349,616</u>	<u>\$813,096,285</u>

Costs incurred for the improvement of real estate investments are capitalized as additions to the investments' cost basis. Interest capitalized and included in real estate assets was \$11,692,577 and \$4,791,214 for 2003 and 2002, respectively.

Included in the asset's cost basis in the table above is the revaluation of the foreign denominated investments to U.S. dollars, which amounted to a net gain of \$45,675,554 and \$21,104,664 as of December 31, 2003 and 2002, respectively. Based on current investment management plans and based on the Fund's fair value policy, the Fund has recognized a cumulative unrealized loss of \$(31,255,213) and \$(9,074,290) at December 31, 2003 and 2002, respectively. These fair value adjustments are included in the fair value of the investments in the above table.

As a result of having foreign investments, the Partnerships are exposed to the effect of foreign exchange rate fluctuations on the U.S. dollar. The Partnerships have purchased foreign currency put options and have entered into forward contracts and collar agreements to minimize the effect of fluctuating foreign currencies on future cash flows.

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The General Partner has received third party valuations on the various foreign currency hedges which are included in each investment's basis in the accompanying consolidated and combined statements of assets, liabilities and partners' capital. Changes in the value of the foreign currency hedges are included as a component of the net unrealized gains in the accompanying consolidated and combined statements of income. The fair value of foreign currency hedges at December 31, 2003 and 2002 was a net liability of \$(34,832,335) and \$(15,770,564), respectively. As of December 31, 2003 and 2002, the premium paid on the initial purchase of the hedges of \$537,500 and \$1,408,477, respectively, is shown in the historical cost basis in the table above. The foreign currency hedges have maturity dates ranging from January 2004 to April 2006.

The Partnerships, through subsidiaries and individual joint venture entities, have also entered into various interest rate cap and swap agreements to minimize the effect of fluctuations of interest rates on future cash flows and reported income. The interest rate hedges are considered in the development of the underlying assets' net cash flow pursuant to the business plan for that asset. As a result, the value of those hedges are considered as part of the overall fair value of the investment.

Revenue Recognition

Rental Income

Rental income is recognized when earned pursuant to the terms of the underlying tenant leases. The financial statements are prepared using the fair value basis; therefore, the Fund does not record rental income on a straight-line basis.

Realized Gains (Losses)

Realized gains (losses) on sales of loans, notes receivable, real estate assets, and CMBS and other securities are recognized when the transaction is consummated, adequate consideration is exchanged and the nature of any contingencies or continuing involvement is such that gain recognition is acceptable.

CMBS and Other Securities

CMBS and Other Securities represent the Fund's investment activity in commercial mortgage-backed securities ("CMBS") and shares held in a French publicly traded company, which were sold in January 2003. CMBS are generally non-investment grade securities which are secured by commercial mortgage loans, which are in turn secured by commercial real estate. CMBS are carried at fair value. Fair value is generally based on third party quotes obtained from active dealers in the CMBS market. The Fund also uses a discounted cash flow model which utilizes prepayment and loss assumptions based upon historical experience, economic factors and the characteristics of the underlying cash flow in order to substantiate the fair value of the securities. The assumed discount rate is based upon the yield of comparable securities. Income is recognized in accordance with EITF 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" using the effective interest method, based on the anticipated yield over the expected life of the investment. Yields are revised when there are changes in estimates of future credit losses, actual losses incurred, and actual and estimated prepayment speeds. To the extent unrealized losses on securities reflect a decline in value that is other than temporary this would result in a write down of the impaired security to its fair value. This would create a new carrying basis for the security and a revised yield would be calculated based on the future estimated cash flows. Changes in estimated yields are recognized prospectively as an adjustment to the estimated yield over the remaining life of the CMBS.

Loans and Notes Receivable

Interest income from notes receivable is recognized when earned and collectibility is reasonably assured.

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with a maturity of 90 days or less when purchased.

Restricted Cash

Restricted cash represents cash held by the Partnerships and subsidiaries for security deposits and in escrow accounts, as required by lenders. Restricted cash includes amounts from a bond financing completed in 2002 that will be used to complete development of a construction project. This balance at December 31, 2003 and 2002, was \$12,949,213 and \$48,505,207, respectively.

Accounts Receivable

Payments received from CMBS in January 2003 of \$1,936,489 that related to December 2002 are classified as accounts receivable at December 31, 2002. There were no amounts in accounts receivable related to payments from CMBS at December 31, 2003.

Guarantees

Financial Accounting Standard Board ("FASB") Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45") provides for initial recognition accounting of guarantees issued or modified after December 31, 2002 and disclosure requirements for certain guarantees for financial statements of annual periods ending after December 15, 2002. The Fund has certain guarantees, which require initial recognition accounting and disclosures under FIN 45 as provided in Notes 6 and 11.

Income Taxes

No provision has been made in the accompanying consolidated and combined financial statements for federal, state, or local income taxes, as each Partner is individually responsible for reporting its share of the Partnerships' taxable income or loss. Personal property, gross receipts and other taxes that are not flow-through type taxes are appropriately reflected in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated and combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications

Certain 2002 amounts were reclassified to conform with 2003 presentation.

Recent Pronouncements

In December 2003, the FASB issued the revised Interpretation No. 46, "Consolidation of Variable Interest Entities," ("FIN 46R") which changes the guidelines for consolidation of and disclosure related to unconsolidated entities, if those unconsolidated entities qualify as variable interest entities, as defined in FIN 46R. The effective date for applying the provisions of FIN 46R is deferred for companies that currently account for their investments in accordance with the AICPA Investment Company Audit Guide.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In December 2003, the AICPA issued SOP 03-4, "Reporting Financial Highlights and Schedule of Investments by Nonregistered Investment Partnerships: An Amendment to the Audit and Accounting Guide Audits of Investment Companies and AICPA Statement of Position 95-2, Financial Reporting by Nonpublic Investment Partnerships" ("SOP 03-4"). The disclosure requirements of SOP 03-4 are required for financial statements beginning after December 15, 2003. The impact of the adoption of SOP 03-4 is not expected to have a significant impact on the accompanying consolidated and combined financial statements.

3. ALLOCATION OF NET INCOME (LOSS) AND DISTRIBUTIONS**Allocation of Net Income (Loss)**

The Partnership Agreements generally provide that net income or net loss for each fiscal year shall be allocated to reflect capital account balances by partner that would result if cash equal to such total capital account balances were distributed in accordance with Section 3.5 of the Partnership Agreements. The largest component of cash distributions that may result in non pro-rata income distributions is the General Partner's Carried Interest. Given that the General Partner is entitled to payments of Carried Interest only when cash is distributed in accordance with Section 3.5 of the Partnership Agreement and that these payments are subject to clawback provisions, net income (loss) has generally been allocated to the Partners pro-rata, based on capital commitments.

Allocation of Distributions

The Partnership Agreements provide that Current Proceeds and Disposition Proceeds from an Investment shall generally be distributed to the Partners as follows:

- (i) First, 100% to such Limited Partner until such Limited Partner has received cumulative distributions of Investment Proceeds from such Investment and all Realized Investments, that returns 100% of (a) the Limited Partner's cumulative Capital Contributions for all Realized Investments, (b) the Limited Partner's pro rata share of any Net Losses from Writedowns and, (c) the Limited Partner's portion of organizational expenses, management fees and other expenses as defined in the Partnership Agreement;
- (ii) Second, 100% to such Limited Partner until (A) such distribution results in such Limited Partner receiving a 10% Preferred Realized Return, (B) such Limited Partner has achieved a 10% Preferred Realized and Unrealized Return, and (C) in the case of a distribution of Current Proceeds from an Unrealized Investment, such distribution results in such Limited Partner receiving a 10% Preferred Current Return on such Investment;
- (iii) Third, 50% to such Limited Partner and 50% to the General Partner to the extent, if any, necessary so that the cumulative distributions of Carried Interest to the General Partner from such Investment and all Realized Investments with respect to such Limited Partner, equals 20% of the sum of:
 - (A) the excess of (I) the cumulative distributions to such Limited Partner of Investment Proceeds from such Investment and all Realized Investments over (II) the amount described in section (i) above, plus
 - (B) the cumulative distributions of Carried Interest from such Investment and all Realized Investments to the General Partner with respect to such Limited Partner;

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

3. ALLOCATION OF NET INCOME (LOSS) AND DISTRIBUTIONS (continued)

provided that if the cumulative distributions of Carried Interest to the General Partner from such Investment and all Realized Investments with respect to such Limited Partner already exceeds 20% of the foregoing sum, then the distribution shall instead be made 100% to such Limited Partner until the cumulative distributions of Carried Interest to the General Partner from such Investment and all Realized Investments with respect to such Limited Partner equals 20% of the foregoing sum; and

(iv) thereafter, 80% to such Limited Partner and 20% to the General Partner.

4. CMBS AND OTHER SECURITIES

The Fund's portfolio consisted of the following:

	As of December 31, 2003		As of December 31, 2002	
	Amortized/ Accreted Cost	Fair Value	Amortized/ Accreted Cost	Fair Value
CMBS Bonds	\$ 106,942,545	\$ 109,812,420	\$ 134,307,938	\$ 141,242,294
Publicly traded stock	-	-	3,258,116	3,258,116
Total CMBS and Other Securities	<u>\$ 106,942,545</u>	<u>\$ 109,812,420</u>	<u>\$ 137,566,054</u>	<u>\$ 144,500,410</u>
Effective Unlevered Yield on CMBS		<u>14.3%</u>		<u>17.2%</u>

The non-investment grade and unrated tranches of the CMBS in which the Fund invests are subordinate in right of payment to the more senior tranches of the related CMBS issuance. Cash flow from the underlying mortgages generally is allocated first to the senior tranches, with the most senior tranches having a priority right to the cash flow. Any remaining cash flow is allocated, generally, among the other tranches in order of their relative seniority. To the extent there are defaults and unrecoverable losses on the underlying mortgages resulting in reduced cash flows, the most subordinate tranche will bear this loss first.

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

4. CMBS AND OTHER SECURITIES (continued)

The rating classes of the CMBS were as follows:

Rating Class	As of December 31, 2003		As of December 31, 2002	
	Fair Value	Percentage of Total	Fair Value	Percentage of Total
AAA ⁽¹⁾	\$ 16,724,199	15.2%	\$ 30,623,345	21.7%
AA	1,973,811	1.8%	245,860	0.2%
BBB	6,369,729	5.8%	343,054	0.2%
BB	29,117,930	26.5%	33,472,523	23.7%
B	20,145,843	18.4%	43,882,440	31.1%
CCC	12,604,525	11.5%	-	-
C	351,596	0.3%	-	-
Unrated	22,524,787	20.5%	32,675,072	23.1%
Total	\$ 109,812,420	100.0%	\$ 141,242,294	100.0%

⁽¹⁾ Investments rated AAA include interest only strips ("IOs") and floor certificates. Generally, these investments were made along with other tranches in a CMBS issuance.

At December 31, 2003 and 2002, the CMBS were secured by commercial mortgage loans with an aggregate outstanding principal balance of approximately \$1.6 billion and \$2.1 billion, respectively. As of December 31, 2003, on average, the Fund's CMBS were subordinate to approximately 83% of the total bond principal outstanding in the CMBS issuances.

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

4. CMBS AND OTHER SECURITIES (continued)

The geographic and property type composition of the fair value of the Fund's investment in CMBS is based upon the characteristics of the underlying mortgage loans securing the respective CMBS at December 31, 2003 and 2002 and were as follows:

<u>Geographic Region</u>	<u>2003</u>	<u>2002</u>
Southwest	24.6%	27.6%
Northeast	20.9%	19.7%
Southeast	11.7%	8.8%
Pacific	11.5%	12.0%
North Central	3.1%	7.0%
Mountain	2.5%	1.6%
Canada	3.7%	2.6%
Mideast	0.1%	4.0%
Other ⁽¹⁾	21.9%	16.7%
Total	<u>100.0%</u>	<u>100.0%</u>

<u>Property Type</u>	<u>2003</u>	<u>2002</u>
Apartment	27.1%	36.5%
Office	24.4%	24.5%
Retail	22.6%	15.0%
Hotel	9.6%	8.4%
Warehouse	0.5%	4.4%
Other ⁽¹⁾	15.8%	11.2%
Total	<u>100.0%</u>	<u>100.0%</u>

- (1) The Fund's investment in non-traditional CMBS structures such as REIT bonds, Financial Asset Securitization Investment Trusts (FASIT's) which allow asset additions and substitutions, and securitized franchise loans are classified as "Other" due to the stratification information on the original loan collateral being unavailable or not meaningful.

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

5. INVESTMENTS IN UNCONSOLIDATED ENTITIES

The Partnerships' investments in unconsolidated entities consist of ownership interests in real estate assets and operating companies. Included in the consolidated and combined statements of operations is the Fund's proportionate share of income (loss) from the unconsolidated entity. The following table presents the condensed financial information of these unconsolidated entities excluding depreciation and amortization and including capitalized interest, discount accretion and equity in earnings, if applicable:

As of and for the Year Ended December 31, 2003

Investment	Ownership Percentage	Total Assets	Total Liabilities	Net Income (Loss)
Austin Technology Park	24.07%	\$ 98,072,861	\$ 36,262,421	\$ 4,811,373
Allied London	29.96%	548,878,892	359,073,815	26,615,142
Brauvn Capital I	24.69%	13,471,630	342,922	2,952,832
Hemingway	22.88%	109,045,748	76,127,757	66,511
Benchmark	32.69%	465,187,483	298,752,608	(8,532,776)
One Kendall Square	48.50%	211,950,151	162,451,132	10,016,408
Brauvn Capital II	23.99%	33,485,329	14,807,915	10,237,510
Resolution	20.78%	422,035,821	313,792,015	(13,835,216)
Department of Transportation	25.00%	35,845,186	8,155,601	11,003

As of and for the Year Ended December 31, 2002

Investment	Ownership Percentage	Total Assets	Total Liabilities	Net Income (Loss)
Austin Technology Park	24.07%	\$ 93,321,925	\$ 36,153,683	\$ 3,977,760
Allied London	29.97%	587,131,784	423,640,216	14,338,523
Brauvn Capital I	24.69%	21,716,298	321,600	3,357,209
Hemingway	22.88%	91,663,415	67,444,524	(126,722)
55 West Wacker	46.25%	21,436,185	15,730,242	1,592,145
Benchmark	32.69%	483,116,447	350,051,522	891,084
One Kendall Square	48.50%	204,430,444	162,323,971	8,370,995
Brauvn Capital II	24.55%	49,056,846	25,689,377	5,053,728
Resolution	20.78%	389,809,216	291,626,402	(4,916,821)
Olde Salem Village	40.08%	26,737,796	21,271,253	1,775,359

JER Fund II**Notes to the Combined Financial Statements****December 31, 2003****6. DEBT OBLIGATIONS**

The following table summarizes the Partnerships' debt outstanding as of December 31, 2003.

<u>Debt Type/Description</u>	<u>Notes</u>	<u>Debt per Balance Sheet (a)</u>	<u>JER Debt (b)</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>
Credit Facility					
Wells Fargo	(c)	\$ 11,000,000	\$ 11,000,000	4.42%	Mar-06
Repurchase Obligations					
Morgan Stanley	(e)	64,207,927	64,207,927	2.34%	Nov-04
Merrill Lynch	(f)	3,404,870	3,404,870	7.30%	(f)
Credit Suisse First Boston	(g)	3,679,000	3,679,000	1.62%	Mar-05
Subtotal		71,291,797	71,291,797		
Loans Payable (Property Level)					
Belgrave House	(h)	82,360,802	60,361,316	8.20%	(h)
International Gateway	(i)	46,500,000	45,230,550	5.50%	Oct-04
1412 Broadway	(j), (bb)	62,644,662	62,644,662	7.92%	May-06
Austin Technology Park	(k), (bb)	-	8,135,535	3.75%	Jul-04
One Kendall Square	(l), (bb)	-	77,600,000	4.12%	Jan-05
300 West Sixth Street	(m), (cc)	56,428,630	45,200,000	3.31%	May-04; May-06
ALF I Portfolio	(p), (cc)	45,790,000	34,342,500	7.20%	Apr-07
ALF II Portfolio	(p), (cc)	15,000,000	11,250,000	7.25%	Apr-07
Allied London	(q), (cc)	-	95,090,116	7.20%	(q)
Benchmark	(r), (cc)	-	94,314,844	6.90%	Oct-05
Brauvin Capital II	(s), (cc)	-	2,163,390	3.72%	Jan-05
Catalyst	(t), (cc)	41,423,464	25,067,323	6.80%	Feb-06
Hemingway	(u), (cc)	-	16,190,625	6.20%	Jun-05
Resolution	(x), (cc)	-	60,791,412	8.00%	(x)
Twinbrook Portfolio	(y), (cc)	139,275,979	94,707,665	6.31%	(y)
Subtotal		489,423,537	733,089,938		
Total		\$571,715,334	\$815,381,735		

JER Fund II**Notes to the Combined Financial Statements****December 31, 2003****6. DEBT OBLIGATIONS (continued)**

The following table summarizes the Partnerships' debt outstanding as of December 31, 2002.

<u>Debt Type/Description</u>	<u>Notes</u>	<u>Debt per Balance Sheet (a)</u>	<u>JER Debt (b)</u>	<u>Effective Interest Rate</u>	<u>Maturity</u>
Credit Facility					
Deutsche Bank	(d)	\$ 59,500,000	\$ 59,500,000	2.30%	Jan-03
Repurchase Obligations					
Morgan Stanley	(e)	65,029,960	65,029,960	2.56%	Nov-04
Merrill Lynch	(f)	2,795,320	2,795,320	7.30%	(f)
Credit Suisse First Boston	(g)	7,735,950	7,735,950	1.91%	Feb-04
Subtotal		75,561,230	75,561,230		
Loans Payable (Property Level)					
Belgrave House	(h)	35,525,353	26,036,531	8.90%	(h)
International Gateway	(i)	46,101,456	44,842,888	4.88%	Oct-04
1412 Broadway	(j), (bb)	63,623,396	63,623,396	7.87%	May-06
Austin Technology Park	(k), (bb)	-	8,170,110	4.02%	Jul-04
One Kendall Square	(l), (bb)	-	77,600,000	6.00%	Jan-05
300 West Sixth Street	(m), (cc)	49,842,295	40,080,532	3.82%	May-04; May-06
55 West Wacker	(n), (cc)	-	6,316,133	7.63%	Oct-25
915 E Street	(o), (cc)	5,000,000	4,000,000	3.79%	Nov-03
ALF I Portfolio	(p), (cc)	45,831,400	34,373,550	7.20%	Apr-07
ALF II Portfolio	(p), (cc)	15,000,000	11,250,000	7.25%	Apr-07
Allied London	(q), (cc)	-	114,201,591	7.60%	(q)
Arlington Gateway	(z), (cc)	6,675,000	5,473,500	4.25%	Nov-03
Benchmark	(r), (cc)	-	110,205,438	7.60%	Oct-05
Brauvn Capital II	(s), (cc)	-	6,009,916	4.37%	Jan-05
Catalyst	(t), (cc)	55,202,059	33,402,765	6.80%	Feb-06
Hemingway	(u), (cc)	-	14,357,679	6.30%	Jun-05
Olde Salem Village	(v), (cc)	-	8,299,187	4.71%	Jan-12
Park Plaza	(w), (cc)	2,943,701	1,924,592	4.30%	(w)
Resolution	(x), (cc)	-	53,774,214	8.70%	(x)
Twinbrook Portfolio	(y), (cc)	113,138,835	90,511,069	6.66%	(y)
Wilcox Apartments	(aa), (cc)	7,250,000	6,887,500	4.25%	Dec-12
Subtotal		446,133,495	761,340,591		
Total		\$581,194,725	\$896,401,821		

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

6. DEBT OBLIGATIONS (continued)

Footnotes to the Debt Obligation Table

- (a) Represents the total debt outstanding for those entities which are consolidated in the Partnerships' financial statements.
- (b) Represents the Fund's pro rata share of third party debt of consolidated and equity method investments.
- (c) In March 2003, the Fund closed on a revolving credit facility with Wells Fargo Bank, as agent, to provide the Fund with increased liquidity. Currently, the maximum committed amount under this facility is \$25 million, which can be increased to \$50 million upon successful syndication. The credit facility is secured by the Fund's ownership interest in a pool of assets and matures in March 2006. The interest rate under the facility is LIBOR plus 3.25%.
- (d) The remaining Capital Commitments of certain Limited Partners secured the obligations under the Credit Facility with Deutsche Bank. Interest on advances were based on a rate calculated at the Partnerships' option of LIBOR plus .875% or the prime rate. The Facility was repaid in full on January 28, 2003.
- (e) In April 2000, JER Financial Products II ("JER FP II"), a wholly owned subsidiary of the Partnerships, entered into a CMBS repurchase agreement with Morgan Stanley. The repurchase pricing rate is based on LIBOR plus a margin, tiered according to the security's credit rating. The agreement, which expired in October 2002, has been extended to November 2004. Under the repurchase agreement, Morgan Stanley retains the right to mark the underlying collateral to estimated market values. A reduction in the value of its pledged assets will require JER FP II to provide additional collateral or fund margin calls so that the outstanding loan amount will be less than or equal to the allowable amount.
- (f) JER FP II has a CMBS repurchase agreement in place with Merrill Lynch related to its investment in CMBS which are denominated in Canadian dollars ("CAD"). The repurchase agreement has been in place since May 2000 and was extended on a month-to-month basis through December 2003. It was repaid in March 2004. The interest rate is based on LIBOR plus a margin, tiered according to the underlying security's rating. In May 2000, JER FP II entered into a fixed for floating interest rate swap agreement that fixes the all-in interest rate on a notional amount of CAD 4,743,548 (\$3,665,340) at 7.3% through April 2010. In May 2000, JER FP II also entered into a currency swap agreement whereby Canadian dollars are swapped for U.S. dollars. The Fund guaranteed all amounts due under the repurchase and swap agreements. The swap agreements were terminated in March 2004 at the time the repurchase agreement was repaid.
- (g) In December 2001, JER FP II entered into a CMBS repurchase agreement with Credit Suisse First Boston which matures in March 2005. The repurchase pricing rate is based on LIBOR plus 0.50%.

6. DEBT OBLIGATIONS (continued)

- (h) In April 2002, a subsidiary of the Partnerships entered into a £60 million (\$106.7 million) Facility Agreement, which includes development and term loan components. The loans bear interest at LIBOR plus a margin and certain mandatory costs. The development loan matures on the earlier of October 2006 or 18 months after completion of development. The term loan matures on the earlier of April 2008 or three years after the utilization date of the term loan. The Fund and other parties have guaranteed the payment of interest up to an aggregate recovery amount of £5,000,000 (\$8,892,500). The current facility provides for an interest reserve from which interest payments to the lenders are currently being funded. The interest reserve balance was £3,975,394 (\$7,070,238) and £1,126,556 (\$2,003,580) as of December 31, 2003 and 2002, respectively. However, based on current business plans for the investment, the interest reserve is expected to be fully utilized by November 2004. At that time interest payments would need to be funded from additional equity contributions by the Partnerships and related parties up to the stated maximum amount of £5,000,000 (\$8,892,500).
- (i) In October 2001, a subsidiary of the Partnerships entered into a \$46.5 million construction loan which is secured by property in San Diego, California. The loan bears interest at a rate of LIBOR plus 3.5%. The spread was reduced to 2.5% as of July 1, 2003 as a result of achieving certain debt coverage goals. In October 2003, the initial maturity date was extended one year based upon satisfaction of certain terms and conditions. The Fund guarantees payment of principal and interest up to a maximum of \$14 million. As of December 31, 2003, no amount is due under the guarantee and management does not expect payments to be required under the guarantee.
- (j) In June 2001, a subsidiary of the Partnerships assumed an existing loan in connection with the acquisition of a property and increased the loan amount such that it received approximately \$56.9 million collateralized by a property at 1412 Broadway in New York, New York. Payments are based on a 25 year amortization schedule and a fixed rate of 7.62%. Additionally, at the time of acquisition, the seller provided an \$8 million contribution in exchange for 10% preferred stock in the subsidiary. Monthly payments for the redemption of the stock are based on 25 year amortization and 10% interest. For financial statement purposes, the preferred stock is treated as debt.
- (k) An affiliated entity entered into a loan in June 2000 collateralized by an office/industrial property in Austin, Texas. Interest is based on LIBOR plus 2.6%. LIBOR was capped at 8.0% through May 2003, through the use of an interest rate cap agreement. Due to achieving debt coverage requirements in the loan agreement, no further interest rate cap agreements are required.
- (l) In December 2001, a subsidiary of the Partnerships obtained a loan for a mixed use project in Cambridge, Massachusetts. Interest on the loan is based on LIBOR plus 3.0%, subject to an all-in floor of 6.0%. A derivative was purchased for \$1.1 million which effectively eliminated the floor beginning in December 2002.
- (m) In May and August 2000, a subsidiary of the Partnerships entered into two loans for the development of real estate located in Austin, Texas. One loan for \$1.5 million bears no interest and has been discounted to yield an effective interest rate of 15.0%. The other loan was refinanced in April 2003 for \$59.0 million, extending the maturity to May 2006 and increasing the interest rate to LIBOR plus 2.15%. Through the use of an interest rate cap agreement, LIBOR on the new loan is capped at 7.25% through April 2005. JER FPII is a guarantor for the debt; however, recourse is limited to standard carve-outs related to losses arising as a result of fraud, gross negligence, willful misconduct, or intentional misrepresentation.

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

6. DEBT OBLIGATIONS (continued)

- (n) In October 2000, a loan was obtained to purchase an office building in Chicago, Illinois. In June 2003, the loan was refinanced, extending the maturity to June 2013 at a fixed rate of 7.16%. In August 2003, the asset was sold and the loan was assumed by the Purchaser.
- (o) A subsidiary of the Partnerships entered into a loan in February 2001 which is collateralized by property located in Washington, D.C. The loan is interest only and bears interest at LIBOR plus 2.35%. The loan was extended to November 2003. In October 2003, the property was sold and the loan was repaid.
- (p) In April 2002 a subsidiary of the Partnerships entered into a note arrangement for \$45 million which is collateralized by a portfolio of assisted living facilities. In October 2002, the note was increased to \$60 million. The loan bears interest at an initial rate of LIBOR plus 4% subject to an interest rate floor of 7.25% and payments are interest only through September 2004.
- (q) An affiliate of the Partnerships has loans which are secured by certain properties owned by Allied London. The loans mature between April 2004 and February 2006 and are subject to various swap and cap instruments (expiring at various times through April 2004) that fix the respective interest rate indices between 4.27% and 4.90%, exclusive of any spreads. Any balances not covered by the swap and cap instruments bear interest at rates based on LIBOR plus a spread.
- (r) An affiliate of the Partnerships has borrowed under three facilities in connection with the purchase of the Benchmark properties. The loans are subject to various swap and cap instruments (expiring between April 2004 and October 2005) that fix the interest rates between 4.9% and 7.0%. Any balances not covered by the swap and cap instruments bear interest at rates based on LIBOR plus a spread. Following the sale of one of the Benchmark properties in July 2003, the amount borrowed was reduced and one of the three facilities was fully repaid. As of December 31, 2003 the Fund has letters of credit in the amount of £5,746,278 (\$10,219,755) supporting certain of the borrower's obligations under the facilities.
- In January 2004, the investment entity restructured one of the facilities whereby the loan covenants were reduced/modified in exchange for a re-allocation of letters of credit pledged on a third facility which has since been repaid. As a result of the restructuring, the letters of credit supporting the borrowings was reduced to £5,121,891 (\$9,109,283).
- (s) In December 2001, an affiliate of the Partnerships refinanced existing debt with a credit facility for \$33.25 million which is collateralized by numerous real estate properties. Loans under the facility bear interest at either LIBOR plus 2.50% or the prime rate, at the borrower's option. From February 2002 through September 2003, LIBOR was capped at 4.5% through an interest rate cap agreement. No additional cap agreements were put into place after September 2003.
- (t) In February 2001, an affiliate of the Partnerships assumed a loan in connection with the acquisition of six office buildings located in England and Scotland. Interest is paid on the loan subject to several interest rate contracts expiring at various times through February 2005. The interest rate swap agreements contracts fix the interest rate at 6.72% plus certain costs. Outside of the fixed periods, the balances outstanding will bear interest at a rate of LIBOR plus 1.15% plus certain costs.

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

6. DEBT OBLIGATIONS (continued)

- (u) An affiliate of the Partnerships borrowed under a facility in connection with the purchase of the Hemingway properties. The loan is subject to various interest rate swap and cap instruments (expiring in April 2005) that fix the interest rate at 5.60%. Any balances not covered by the swap and cap instruments bear interest at rates based on LIBOR plus a spread.
- (v) In December 2001, a subsidiary of the Partnerships obtained two loans collateralized by real estate located in Fairfax County, Virginia. Interest on the first loan was fixed at a rate of 6.99% and payments were based on a 30 year amortization schedule. Interest on the second loan was based on LIBOR or the FHLMC Reference Bill Index plus 1.8% and payments were based on a 30 year amortization schedule. Through an interest rate cap agreement, LIBOR was capped at 4.93% through January 2004. In June 2003, the property was sold and the loan was assumed by the Purchaser.
- (w) In connection with the purchase of two hotels in France, an affiliate of the Partnerships assumed four loans from three lenders. Interest on each of the loans was a variable rate and, depending upon the loan, was based on an average EURIBOR rate or a base index (EURIBOR or PIBOR) plus a spread of approximately 1.5%. The maturity dates ranged between July 2006 and July 2009. In October 2003, the Partnerships sold their interest in the properties and the loan was assumed on the date of sale.
- (x) An investment entity of an affiliate of the Fund obtained two loan facilities in connection with the purchase of the Resolution properties, which include both development and term loan components and bear interest at a variable rate linked to LIBOR. The facilities, which are repayable between 2005 and 2006, are subject to various hedging instruments that fix LIBOR at 5.61% and 5.80%, exclusive of any spreads. As of December 31, 2003 the Fund has letters of credit in the amount of £2,078,290 (\$3,696,239) supporting certain of the investment entity's obligations under the facilities.

In December 2003, the investment entity restructured the two facilities whereby the loan covenants were reduced in exchange for a commitment to provide additional credit support in the form of equity capital or letters of credit in the future.

In relation to the facility where the Partnerships have cover funds supporting the amount borrowed at December 31, 2003, the Partnerships have agreed to ensure that such cover funds, should they fall below £831,316 (\$1,478,496), are replenished back to that level to meet any projected potential shortfall through the term of the loan. In relation to the other facility, the Partnerships have given a commitment to provide up to £415,658 (\$739,248) of additional credit support in the form of equity capital or letters of credit in the future to cover any potential interest shortfalls.

- (y) In November 2000, a subsidiary of the Partnerships assumed four fixed rate loans in connection with the acquisition of real estate located in Rockville, Maryland. In February 2001, two interest only loans were obtained which bear interest at LIBOR plus 1.75% and LIBOR plus 2.1%. In late June 2002, a \$76 million bond financing was completed which bears interests at a blended rate of 7.29% and matures on January 15, 2024. In February 2003, a \$19 million bond financing was completed which bears interest at a fixed rate of 5.83% and matures on January 15, 2019.

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

6. DEBT OBLIGATIONS (continued)

(z) In December 2001, limited liability companies in which subsidiaries of the Partnerships have indirect ownership interests obtained two loans collateralized by real estate located in Arlington County, Virginia. Under one of the loans, the Partnerships' subsidiaries' had a limited obligation to make capital contributions to the borrowing entity to repay the debt. The second loan was guaranteed by a wholly-owned subsidiary of the Fund up to \$3.8 million. The property was sold in February 2003 and the Fund's subsidiaries were released from their respective obligations and guarantees.

(aa) In June 2001 a subsidiary of the Partnerships obtained a loan for \$6 million which was refinanced in November 2002 for a principal balance of \$7.25 million. The loan was collateralized by real estate located in Los Angeles, California with an interest rate of 4.25% through June 1, 2003. In February 2003, the Fund sold its interest in the entity and was released from its respective obligations.

(bb) The Partnerships are a guarantor for the debt; however, recourse to the Partnerships is limited to standard carve-outs related to losses arising as a result of fraud, gross negligence, willful misconduct, or intentional misrepresentation. As of December 31, 2003, no amounts are outstanding and management does not expect to fund under the guarantee.

(cc) The loans are non-recourse to the Partnerships.

Minimum principal repayments for the years ended December 31 are as follows:

2004	\$123,359,740
2005	28,741,183
2006	121,294,026
2007	61,288,090
2008	85,946,103
Thereafter	<u>151,086,192</u>
Total	<u>\$571,715,334</u>

7. PARTNER'S CAPITAL

The original capital commitment of the Partners was \$596,185,000; however an additional \$20,815,000 was returned to the Partners during the investment period and subsequently recalled for new investments. Therefore, the total capital called by the Partners was \$617,000,000. At December 31, 2003 and 2002, the Partnerships had Unpaid Capital Commitments from its Partners aggregating \$204,296,239 and \$216,796,239, respectively. The Commitment Period ended March 31, 2003, however, such Unpaid Capital Commitments may be called by the General Partner with fourteen days notice, subject to certain restrictions. Based on the Partnership Agreement, all of the Unpaid Capital Commitment may be called to pay down debt outstanding as of March 31, 2003. The General Partner may call capital for certain other purposes as defined in the Partnership Agreement. The General Partner owns general and limited partner interests in the Partnerships. As of December 31, 2003, the General partner holds \$5,767,270, or 1.67%, of the Partnership's capital.

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

8. GAIN (LOSS) ON INVESTMENTS

For the years ended December 31, 2003 and 2002 unrealized loss on investments comprised:

	<u>2003</u>	<u>2002</u>
Unrealized Loss on Foreign Currency Hedges	\$ (20,689,234)	\$ (22,285,263)
Currency Gain on Revaluation of Foreign Investments	15,907,704	16,953,863
Reversal from Unrealized to Realized Gain (Loss) for Sold Assets	(6,214,702)	3,508,077
Fair Value adjustment on Investments	(25,382,295)	(9,835,088)
Unrealized Loss on Investments	<u>\$ (36,378,527)</u>	<u>\$ (11,658,411)</u>

For the years ended December 31, 2003 and 2002 realized gain on investments comprised:

	<u>2003</u>	<u>2002</u>
Realized Loss on Currency Contracts	\$ (6,014,640)	\$ (1,056,799)
Realized Gains on Sold Investments	14,133,452	22,028,719
Realized Gain on Investments	<u>\$ 8,118,812</u>	<u>\$ 20,971,920</u>

9. RELATED PARTY TRANSACTIONS

The Partnerships have retained an affiliate of the General Partner as the asset manager for their investments. Asset management fees are calculated at 1.35% per annum of the cost of the underlying assets. For the years ended December 31, 2003 and 2002, the affiliate earned asset management fees of \$15,522,103 and \$15,415,578, respectively, including \$1,599,760 and \$1,676,356, respectively, which were billed to unconsolidated investments and are reflected as part of the equity in earnings of the unconsolidated investments. At December 31, 2003 and 2002, \$1,266,280 and \$1,295,080, respectively, related to consolidated and unconsolidated investments, were unpaid and included in accounts payable and accrued expenses in the accompanying consolidated and combined statements of assets, liabilities and partners' capital.

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

9. RELATED PARTY TRANSACTIONS (continued)

For the years ended December 31, 2003 and 2002, an affiliate of the General Partner also incurred certain costs to be reimbursed by the Partnerships and its subsidiaries in connection with (i) consummated investment transactions totaling \$(54,570) and \$1,812,632, respectively, (ii) unconsummated investment transactions of \$898,366 and \$2,183,302, respectively, and (iii) legal, accounting support and other expenses aggregating \$1,851,205 and \$1,719,086, respectively. Reimbursements paid to the affiliate of the General Partner in connection with consummated transactions are included in the cost basis of the respective investment. Reimbursements paid to the affiliate of the General Partner in connection with unconsummated transactions are expensed when the General Partner determines that it is unlikely that the transaction will be consummated. Reimbursements paid to the affiliate of the General Partner in connection with legal, accounting, and other expenses are included in administrative expenses. At December 31, 2003 and 2002, accrued and unpaid reimbursable costs included in accounts payable and accrued expenses totaled \$291,549 and \$1,431,247, respectively.

The General Partner was entitled to receive a Management Fee equal to a percentage of the Capital Commitment during the Commitment Period. After the Commitment Period and until termination of the Partnership, the fee is based on a percentage of Capital under Management. For the years ended December 31, 2003 and 2002, the Limited Partners paid Management Fees of \$5,553,109 and \$7,707,503, respectively. The Management Fees were net of 80% of Designated Fees, as defined in the Partnership Agreement, totaling \$805,546 and \$85,272 in 2003 and 2002, respectively. Management Fees are not an expense of the Partnerships as they are paid directly by the Limited Partners to the General Partner.

The Fund co-invests in certain real estate and real estate related investments with entities affiliated with the General Partner. The economic terms of the ownership structure are the same in all material respects. The fair value of the Fund's investment in unconsolidated entities of co-owned investments with JER Fund I at December 31, 2003 and 2002 was \$37,968,163 and \$54,255,443, respectively. The fair value of the Fund's investment in unconsolidated entities of co-owned investments with JER Europe Fund I at December 31, 2003 and 2002 was \$81,915,657 and \$91,434,390, respectively. The fair value of the Fund's co-owned real estate investments with JER Europe Fund I that are accounted for on a consolidated basis by the Fund at December 31, 2003 and 2002 was \$152,208,834 and \$149,784,854, respectively.

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

10. FINANCIAL HIGHLIGHTS

The following financial highlights are being presented in accordance with the provisions of the AICPA Audit and Accounting Guide for Investment Companies, as amended by AICPA SOP 03-4 for the year ended December 31, 2003.

Ratios to Weighted Average Limited Partners' Capital:

Net investment income ⁽¹⁾	7.60%
Expenses ⁽²⁾	(2.43%)
Incentive allocation ⁽³⁾	-
Total expenses and incentive allocation	<u>(2.43%)</u>

Total Return:

Total return before incentive allocation ⁽⁴⁾	(2.23%)
Incentive allocation	-
Total return after incentive allocation	<u>(2.23%)</u>

⁽¹⁾ Net investment income for purposes of this calculation includes income adjusted for minority interest before net realized and unrealized gains (losses). Net investment income does not include Management Fees but does include due diligence costs on un consummated transactions and Fund level administrative expenses.

⁽²⁾ Expenses for the purpose of this calculation include Management Fees paid directly by the Limited Partners, prior to the offset for Designated Fees, due diligence costs on un consummated transactions and Fund level administrative expenses.

⁽³⁾ There was no Carried Interest paid to the General Partner during 2003.

⁽⁴⁾ Total returns have been calculated for the Limited Partners as a class. An individual investor's return may vary from these returns due to individual circumstances.

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

11. COMMITMENTS AND CONTINGENCIES

The Partnerships and JER Europe Fund I, an affiliate of the General Partner, entered into letters of credit agreements ("LOCs") with Deutsche Bank related to purchase deposits and guarantees for certain performance on loans. The LOCs were secured by the Credit Facility and expired in January 2003.

In March 2003, the Fund entered into a letter of credit facility ("LOC Facility") with a third party bank which provides for the issuance of letters of credit in a maximum amount of £8,882,939 (\$15,798,307) related to guarantees for certain performance on loans in the Benchmark and Resolution portfolios. Letters of credit for the full amount were issued in March 2003. In May and December 2003, letters of credit in the amounts of £818,842 (\$1,456,310) and £318,374 (\$566,228), respectively, were released, resulting in a balance of £7,745,723 (\$13,775,769) being outstanding as of December 31, 2003. In January 2004, the LOC Facility was further reduced by £624,386 (\$1,110,470). The remaining LOC Facility expires at various times through June 2006 depending upon loan terms for which it is required. The Fund fully guarantees the repayment of any amounts due under the LOC Facility.

In October 2003, the Fund sold its interest in Park Plaza. In connection with this sale, a subsidiary of the Fund has entered into a guarantee such that upon demand, it will pay the beneficiary up to €523,013 (\$656,747) for a period until September 30, 2004. The amount of the guarantee decreases to a maximum amount of €326,883 (\$410,467) until December 31, 2005 and then decreases to a maximum amount of €163,442 (\$205,234) until December 31, 2006.

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

12. SCHEDULES OF INVESTMENTS

The following schedules of investments as of December 31, 2003 and 2002, respectively are being presented in accordance with the provisions of the AICPA Audit and Accounting Guide for Investment Companies, as amended by AICPA SOP 03-4:

Investments	JER Ownership %	Product Type	Acquisition Date	December 31, 2003		% of Total Fair Value
				Cost (1)	Fair Value (2)	
Canada						
CMBS:						
Merrill-Canada 3 Bonds	100.00%	Mixed	05/30/00	\$ 4,020,741	\$ 4,008,410	0.4%
Total Canada				4,020,741	4,008,410	0.4%
United States						
Real Estate (Consolidated):						
1412 Broadway	100.00%	Office	06/29/01	94,621,607	94,621,607	10.1%
300 West Sixth Street	80.00%	Office	05/21/00	84,347,684	84,347,684	9.0%
ALF Portfolio	75.00%	Other	04/10/02	95,608,229	110,408,229	11.8%
ALF II Portfolio	75.00%	Other	10/07/02	28,233,756	32,367,090	3.5%
International Gateway	97.27%	Retail	03/10/00	88,197,003	88,197,002	9.4%
Twinbrook Portfolio	68.00%	Office	11/03/00	127,437,332	127,437,332	13.6%
Subtotal				518,445,611	537,378,944	57.4%
CMBS:						
MD3 Bonds	100.00%	Mixed	12/16/99	22,860,987	25,466,746	2.7%
REIT 2000 Bonds	100.00%	Other	04/16/00	3,317,499	3,691,801	0.4%
DLJ 2000 - STF1 Bonds	100.00%	Mixed	08/15/00	3,271,881	3,728,524	0.4%
MS Franchise 2000 Bonds	100.00%	Other	09/18/00	2,740,831	1,554,574	0.2%
CSFB 2001 - FL1 Bonds	100.00%	Mixed	12/15/00	13,002,189	14,289,462	1.5%
CSFB 2002 - FL1 Bonds	100.00%	Mixed	12/28/01	18,110,789	17,728,296	1.9%
CSFB 2001 - TFL1 (Titan I) Bonds	100.00%	Mixed	02/01/02	949,395	838,686	0.1%
CSFB 2002 - TFL1 (Titan II) Bonds	100.00%	Mixed	12/09/02	5,679,766	5,667,914	0.6%
CSFB 2002 - FL2 Bonds	100.00%	Mixed	12/27/02	30,344,020	30,025,607	3.2%
CSFB 2003 - TFL1 (Titan III) Bonds	100.00%	Mixed	05/07/03	2,644,447	2,812,400	0.3%
Subtotal				102,921,804	105,804,010	11.3%
Investment in Unconsolidated Entities (Equity Method):						
Austin Technology Park	24.07%	Office	12/28/99	14,758,365	14,758,365	1.6%
Brauvn Capital I	24.69%	Retail	08/07/00	3,830,807	3,830,807	0.4%
Brauvn Capital II	23.99%	Retail	01/25/01	2,681,102	2,681,102	0.3%
Department of Transportation	25.00%	Office	09/25/03	15,203,829	15,203,827	1.6%
One Kendall Square	48.50%	Office	12/28/00	24,246,360	16,697,889	1.9%
Subtotal				60,720,463	53,171,990	5.8%
Loan:						
Barnockburn II-III Loan	100.00%	Other	03/06/00	-	-	0.0%
Total United States				682,087,878	696,354,944	74.5%
Europe						
Real Estate (Consolidated):						
Belgrave House	73.29%	Office	04/24/02	105,588,564	95,520,259	10.2%
Catalyst	60.51%	Office	02/26/01	60,567,853	56,688,575	6.1%
Subtotal				166,156,417	152,208,834	16.3%
Investment in Unconsolidated Entities (Equity Method):						
Allied London	29.96%	Mixed	04/25/00	58,086,818	47,353,836	5.1%
Benchmark	32.69%	Office	10/18/00	54,842,391	30,460,963	3.3%
Hemingway	22.88%	Office	09/07/00	6,352,854	3,914,613	0.4%
Resolution	20.78%	Office	04/17/01	26,695,919	186,245	0.0%
Subtotal				145,977,982	81,915,657	8.8%
Total Europe				312,134,399	234,124,491	25.1%
Total Investments				\$ 998,243,018	\$ 934,487,845	100%

(1) Represents historical cost, which includes capitalized interest, acquisition cost, discount accretion/amortization and equity in earnings of unconsolidated entities.

(2) See footnote 2 to the financial statements.

JER Fund II

Notes to the Consolidated and Combined Financial Statements

December 31, 2003

12. SCHEDULES OF INVESTMENTS (continued)

Investments	JER Ownership %	Product Type	Acquisition Date	December 31, 2002		% of Total Fair Value
				Cost (1)	Fair Value (2)	
Canada						
CMBS:						
Merrill-Canada 3 Bonds	100.00%	Mixed	05/30/00	\$ 3,396,718	\$ 3,740,898	0.4%
Total Canada				3,396,718	3,740,898	0.4%
United States						
Real Estate (Consolidated):						
1412 Broadway	100.00%	Office	06/29/01	93,991,115	93,991,115	9.8%
300 West Sixth Street	80.00%	Office	05/21/00	83,567,240	83,567,240	8.7%
915 E Street	80.00%	Residential	01/31/01	12,146,415	12,146,415	1.3%
ALF Portfolio	75.00%	Other	04/10/02	95,150,975	95,150,975	9.9%
ALF II Portfolio	75.00%	Other	10/07/02	28,238,968	28,238,968	2.9%
International Gateway	97.27%	Retail	03/10/00	86,574,622	86,574,622	9.0%
Twinbrook Portfolio	80.00%	Office	11/03/00	80,554,340	80,554,340	8.4%
Arlington Gateway	82.00%	Land/Mixed Use	06/04/99	24,456,180	27,162,806	2.8%
Wilcox Apartments	95.00%	Multi-family	09/19/00	7,821,813	7,821,813	1.0%
Subtotal				512,501,668	515,208,294	53.8%
CMBS:						
MD3 Bonds	100.00%	Mixed	12/16/99	22,225,757	24,896,748	2.6%
RETT 2000 Bonds	100.00%	Other	04/16/00	3,182,307	3,596,765	0.4%
DLJ 2000 - STF1 Bonds	100.00%	Mixed	08/15/00	10,230,698	11,865,972	1.2%
MS Franchise 2000 Bonds	100.00%	Other	09/18/00	4,856,168	1,799,692	0.2%
CSFB 2001 - FL1 Bonds	100.00%	Mixed	12/15/00	18,242,858	21,751,471	2.3%
CSFB 2002 - FL1 Bonds	100.00%	Mixed	12/28/01	23,768,136	25,346,334	2.6%
CSFB 2001 - TFL1 (Titan I) Bonds	100.00%	Mixed	02/01/02	4,484,220	4,288,840	0.4%
CSFB 2002 - TFL1 (Titan II) Bonds	100.00%	Mixed	12/09/02	10,270,862	10,305,360	1.1%
CSFB 2002 - FL2 Bonds	100.00%	Mixed	12/27/02	33,650,214	33,650,214	3.6%
Subtotal				130,911,220	137,501,396	14.4%
Investment in Unconsolidated Entities (Equity Method):						
55 West Wacker	46.25%	Office	10/05/00	2,953,294	2,953,294	0.3%
Austin Technology Park	24.07%	Office	12/28/99	14,166,736	14,166,736	1.5%
Brauvn Capital I	24.69%	Retail	08/07/00	5,192,598	5,192,598	0.5%
Brauvn Capital II	24.55%	Retail	01/25/01	5,510,315	5,510,315	0.6%
One Kendall Square	48.50%	Office	12/28/00	20,579,411	26,432,500	2.8%
Olde Salem Village	40.08%	Residential	10/27/00	1,827,122	1,827,122	0.2%
Subtotal				50,229,476	56,082,565	5.9%
Loan:						
Columbia Hospital	63.18%	Office/Multi-family	02/14/00	586,182	586,182	0.1%
Bannockburn II-III Loan	100.00%	Other	03/06/00	-	-	0.0%
Total United States				694,228,546	709,378,437	74.2%
Europe						
Other (Consolidated):						
Affine	65.38%	Other	08/23/99	3,258,116	3,258,116	0.3%
Real Estate (Consolidated):						
Belgrave House	73.29%	Office	04/24/02	60,134,084	58,265,167	6.1%
Catalyst	60.51%	Office	02/26/01	81,500,353	79,905,496	8.3%
Park Plaza	65.38%	Hospitality	07/01/99	11,614,191	11,614,191	1.2%
Subtotal				153,248,628	149,784,854	15.6%
Investment in Unconsolidated Entities (Equity Method):						
Allied London	29.96%	Mixed	04/25/00	47,085,681	41,314,321	4.3%
Benchmark	32.69%	Office	10/18/00	44,973,010	33,670,882	3.5%
Hemingway	22.88%	Office	09/07/00	5,666,962	4,588,785	0.5%
Resolution	20.78%	Office	04/17/01	25,058,009	11,860,402	1.2%
Subtotal				122,783,662	91,434,390	9.5%
Total Europe				279,290,406	244,477,360	25.4%
Total Investments				\$ 976,915,670	\$ 957,596,695	100%

(1) Represents historical cost, which includes capitalized interest, acquisition cost, discount accretion/amortization and equity in earnings of unconsolidated entities.

(2) See footnote 2 to the financial statements.

**Supplementary Schedules
(unaudited)**

JER Fund II
Compliance With Leverage Guidelines ⁽¹⁾
As of December 31, 2003
(unaudited)

Investments	Date Closed	JER Equity Ownership %	JER Total Cost	JER Total Debt ⁽²⁾
Real Estate				
1412 Broadway	06/29/01	100.00%	\$ 94,781,571	\$ 62,644,662
300 West Sixth Street	05/21/00	80.00%	87,684,477	45,200,000
ALF Portfolio	04/10/02	75.00%	72,149,374	34,342,500
ALF II Portfolio	10/07/02	75.00%	21,346,928	11,250,000
International Gateway	03/10/00	97.27%	86,641,358	45,230,550
Twinbrook Portfolio	11/03/00	68.00%	95,894,665	94,707,665
Investment in Unconsolidated Entities				
Austin Technology Park	12/28/99	24.07%	20,342,028	8,135,535
Brauvin Capital I	08/07/00	24.69%	3,034,062	-
Brauvin Capital II	01/25/01	23.99%	6,051,991	2,163,390
One Kendall Square	12/28/00	48.50%	100,142,306	77,600,000
Department of Transportation	09/25/03	25.00%	6,281,990	-
CMBS				
MD3 Bonds	12/16/99	100.00%	22,860,987	12,748,176
REIT 2000 Bonds	04/16/00	100.00%	3,317,498	2,374,527
Merril-Canada 3 Bonds	05/30/00	100.00%	3,309,753	3,404,870
DLJ 2000 - STF1 Bonds	08/15/00	100.00%	3,271,880	2,025,843
MS Franchise 2000 Bonds	09/18/00	100.00%	2,740,831	860,691
CSFB 2001 - FL1 Bonds	12/15/00	100.00%	13,002,189	9,211,657
CSFB 2002 - FL1 Bonds	12/28/01	100.00%	18,110,788	11,930,475
CSFB 2001 - TFL1 (Titan I) Bonds	02/01/02	100.00%	949,395	2,681,284
CSFB 2002 - TFL1 (Titan II) Bonds	12/09/02	100.00%	5,679,766	6,609,220
CSFB 2002 - FL2	12/27/02	100.00%	30,344,024	16,721,652
CSFB 2003 - TFL1 (Titan III) Bonds	05/07/03	100.00%	2,644,447	2,723,403
International ⁽⁵⁾				
Allied London	04/25/00	29.96%	149,310,596	95,090,116
Belgrave House	04/24/02	73.29%	77,673,433	60,361,316
Benchmark	10/18/00	32.69%	148,758,130	94,314,844
Catalyst	02/26/01	60.51%	36,640,554	25,067,322
Hemingway	09/07/00	22.88%	22,784,858	16,190,625
Resolution	04/17/01	20.78%	86,763,184	60,791,412
Cash at 12/31/03		100.00%	17,772,296 ⁽³⁾	-
		Subtotal	1,220,285,359	804,381,735
		Total Partnership Level Debt		\$ 11,000,000 ⁽⁴⁾
			Total Fund (A) \$ 1,220,285,359	(B) \$ 815,381,735

Aggregate Portfolio Leverage Ratio (B divided by A)

66.82%

Notes:

- (1) Pursuant to Section 4.2(c) of the Partnership Agreement.
- (2) Debt represents the Fund's pro rata share of third party debt.
- (3) Outstanding cash is net of minority interest cash balance as of 12/31/03.
- (4) Partnership level debt comprised of \$11,000,000 of loans on the Facility as of 12/31/03.
- (5) Cost basis and debt have been converted at the 12/31/03 exchange rate.

**Schedule of Fees and Reimbursements Received by the General Partner or any of its Affiliates
For the Years Ended December 31, 2003 and 2002
Cash Basis**

(unaudited)

	<u>2003</u>	<u>2002</u>
Management Fee ⁽¹⁾	<u>\$ 5,553,109</u>	<u>\$ 7,707,503</u>
Asset Management Fees ⁽²⁾	<u>\$ 15,550,904</u>	<u>\$ 15,274,524</u>
Reimbursement of JER Costs ⁽³⁾	<u>\$ 3,834,699</u>	<u>\$ 5,305,235</u>

Notes:

- (1) The Management Fee is calculated in accordance with Section 6.2 of the Partnership Agreements, and is net of 80% of Designated Fees. Designated Fees paid in 2003 and 2002 were \$805,546 and \$85,272, respectively.
- (2) Asset Management Fees are calculated in accordance with Section 6.3(c) of the Partnership Agreements.
- (3) Represents reimbursement of due diligence and acquisition related expenses for consummated and unconsummated transactions (\$1,786,770 in 2003 and \$3,863,315 in 2002), calculated in accordance with Section 6.3(c) of the Partnership Agreements. Also included are \$1,070,716 and \$906,612 in legal support, \$502,886 and \$220,786 in accounting support and \$474,327 and \$314,522 in other costs reimbursed in 2003 and 2002 respectively.

JER Fund II
Schedule of Changes in Partners' Capital Accounts
For the year ended December 31, 2003
(unaudited)

JER Real Estate Partners II, L.P.

	Ownership Percentage	Balance at		Net Loss	Contributions	Distributions	Balance at	
		December 31, 2002					December 31, 2003	
Allstate Insurance Company	6.13033%	\$ 9,772,308	\$	(209,410)	\$ 1,509,599	\$ (2,421,578)	\$	8,650,921
Amber, Inc.	6.13033%	9,772,308		(209,410)	1,509,599	(2,421,578)		8,650,921
BancBoston Capital, Inc.	4.08689%	6,514,872		(139,606)	1,006,399	(1,614,384)		5,767,281
John W. Berry, Jr.	0.40869%	651,488		(13,961)	100,640	(161,438)		576,729
Patrick J. Borruso	0.04087%	65,149		(1,397)	10,064	(16,144)		57,672
Checchi Family Trust	1.22607%	1,954,463		(41,882)	301,920	(484,315)		1,730,166
Neil D. Cohen	0.40869%	651,488		(13,961)	100,640	(161,438)		576,729
Theodore L. Cook	0.04087%	65,149		(1,397)	10,064	(16,144)		57,672
Crel Investments Limited	4.08689%	6,514,872		(139,606)	1,006,399	(1,614,384)		5,767,281
GKW Unified Holdings, LLC	1.02172%	1,628,718		(34,902)	251,600	(403,598)		1,441,820
The Glenstone Foundation	0.61303%	977,230		(20,941)	150,960	(242,158)		865,091
Greenwood Properties Corporation	4.08689%	6,514,872		(139,606)	1,006,399	(1,614,384)		5,767,281
International Bank for Reconstruction and Development, for its Staff Retirement Plan	6.13033%	9,772,308		(209,410)	1,509,598	(2,421,578)		8,650,920
Jeong H. Kim	0.40869%	651,488		(13,961)	100,640	(161,438)		576,729
James V. Kimsey	0.40869%	651,488		(13,961)	100,640	(161,438)		576,729
Cary A. Koplin	0.04087%	65,149		(1,397)	10,064	(16,144)		57,672
Steven Kotler	0.69477%	1,107,528		(23,734)	171,088	(274,445)		980,437
Nancy I. Lashine	0.04087%	65,148		(1,397)	10,064	(16,144)		57,671
Lexington Private Investment Fund I, LLC	0.44343%	708,865		(15,147)	109,194	(175,161)		625,751
Frederic V. Malek	0.40869%	651,488		(13,961)	100,640	(161,438)		576,729
Massachusetts Mutual Life Insurance Company	4.08689%	6,514,872		(139,606)	1,006,399	(1,614,384)		5,767,281
New York Life Insurance Company	8.17377%	13,029,742		(279,212)	2,012,798	(3,228,767)		11,534,591
Oregon Public Employee's Retirement Fund	40.86887%	66,148,715		(1,398,063)	10,063,890	(16,143,837)		57,672,805
Henry R. Silverman	0.40869%	651,488		(13,961)	100,640	(161,438)		576,729
Southwest Associates	2.04344%	3,257,437		(69,804)	503,199	(807,192)		2,883,640
WFC Holdings Corporation	4.08689%	6,514,872		(139,606)	1,006,399	(1,614,384)		5,767,281
JER Real Estate Advisors II, L.P.	3.47384%	5,537,834		(118,868)	855,439	(1,372,226)		4,902,181
Total JER Real Estate Partners II, L.P.	100.00000%	\$ 159,409,139	\$	(3,415,965)	\$ 24,625,075	\$ (39,501,648)	\$	141,116,700
JER Real Estate Partners II-A, L.P.								
United Nations Joint Staff Pension Fund	99.09990%	\$ 32,574,368	\$	(698,032)	\$ 5,031,995	\$ (8,071,919)	\$	28,836,402
JER Real Estate Advisors II, L.P.	0.99010%	325,742		(6,981)	50,320	(80,719)		288,362
Total JER Real Estate Partners II-A, L.P.	100.00000%	\$ 32,900,100	\$	(705,013)	\$ 5,082,315	\$ (8,152,638)	\$	29,124,764
Total JER Real Estate Partners II & II-A, L.P.	100.00000%	\$ 192,309,239	\$	(4,120,978)	\$ 29,707,390	\$ (47,654,187)	\$	170,241,464

JER Fund II
Schedule of Changes in Partners' Capital Accounts
For the year ended December 31, 2003
(unaudited)

	Ownership Percentage	Balance at December 31, 2002	Net Loss	Contributions	Distributions	Balance at December 31, 2003
JER Real Estate Qualified Partners II, L.P.						
Annuity Board of the Southern Baptist Convention	4.98339%	\$ 9,772,308	\$ (209,410)	\$ 1,509,598	\$ (2,421,576)	\$ 8,650,920
Brown University	1.66113%	3,257,437	(69,804)	503,199	(807,192)	2,883,640
Fresno County Employee Retirement Association	6.64452%	13,029,743	(279,213)	2,012,798	(3,228,766)	11,534,562
John Deere Pension Trust	11.62791%	22,802,052	(488,622)	3,522,396	(5,650,343)	20,185,483
KPERS Non-Core Realty Holdings, Inc.	8.30565%	16,287,180	(349,016)	2,515,998	(4,035,959)	14,418,203
The Leland Stanford Junior University	8.30565%	16,287,180	(349,016)	2,515,998	(4,035,959)	14,418,203
Northwest Airlines Inc. Defined Benefit Master Trust	8.30565%	16,287,180	(349,016)	2,515,998	(4,035,959)	14,418,203
State Street Bank and Trust Company, as Trustee	3.32228%	6,514,872	(139,606)	1,006,399	(1,614,384)	5,767,281
UFCW - Northern California Employees Joint Pension Plan	6.64452%	13,029,743	(279,213)	2,012,798	(3,228,766)	11,534,562
UNC Investment Fund LLC, Inc.	3.32228%	6,514,872	(139,606)	1,006,399	(1,614,384)	5,767,281
The University of Chicago	3.32228%	6,514,872	(139,606)	1,006,399	(1,614,384)	5,767,281
Virginia Retirement System	33.22259%	65,148,715	(1,396,064)	10,083,990	(16,143,836)	57,672,805
JER Real Estate Advisors II, L.P.	0.33221%	651,484	(13,957)	100,840	(181,440)	576,727
Total JER Real Estate Qualified Partners II, L.P.	100.00000%	\$ 198,097,638	\$ (4,202,149)	\$ 30,292,610	\$ (48,592,948)	\$ 173,595,151
Total for the Partnerships	100.00000%	\$ 388,406,877	\$ (8,323,127)	\$ 60,000,000	\$ (86,247,135)	\$ 343,836,615

Certifications

JER Real Estate Advisors II, Inc., the sole General Partner of JER Real Estate Advisors II, L.P., the sole General Partner of the Partnerships, hereby certifies as follows:

- (a) no event has occurred which has caused the obligation of the Limited Partners to make Capital Contributions to be suspended;
- (b) no material breach by the General Partner of any covenant, representation or warranty of the Partnership Agreements has occurred or is continuing.

By: JER Real Estate Advisors II, L.P.,
As General Partner

By: JER Real Estate Advisors II, Inc.,
Its General Partner

By: David B. Kay

Name: David B. Kay
Title: Chief Financial Officer

Exhibit E – Summary of Investments

Fund Name: JER FUND I Manager: JER Partners Through December 31, 2003 ⁽¹⁾ (amounts in millions)								
Investment	Investment Period	Location	Inv. Stage	Security Type / Property Type	Inv. Amount ⁽²⁾	Realized Amount	Current Value ⁽³⁾	Realized & Projected Gross IRR ⁽⁴⁾⁽⁵⁾
Realized Investments ⁽⁶⁾ (Full and Partial)								
1. Albemarle Plaza	Jul-97 to Dec-00	Albermarle, NC	N/A	Fee Simple Retail Shopping Center	\$5	\$5	-	13%
2. SASCO 1997 N-1 (51%)	Aug-97 to Dec-02	North America	N/A	Various Loan and REO Portfolio	\$219	\$219	-	74%
3. Washington Business Park	Aug-97 to Dec-98	Phoenix, AZ	N/A	Fee Simple Industrial/Flex Office Park	\$8	\$8	-	26%
4. Queensway Business Park	Aug-97 to Dec-01	Ontario, Canada	N/A	Fee Simple Industrial/Flex Office Park	\$7	\$7	-	17%
5. Kodak - 3100 Research	Oct-97 to Sep-02	Kettering, OH	N/A	Fee Simple Office Building	\$9	\$9	-	⁽⁷⁾
6. Astoria Portfolio	Nov-97 to Jan-02	New York Metropolitan Area	N/A	Various Loan and REO Portfolio	\$46	\$46	-	12%
7. Campus Executive Park	Dec-97 to Nov-01	Sacramento, CA	N/A	Fee Simple Office Buildings	\$8	\$8	-	7%
8. 701 Lee Street	Dec-97 to May-03	Des Plaines, IL	N/A	Fee Simple Office Building	\$10	\$10	-	11%
9. 405 Victory Avenue	Jan-98 to Mar-01	South San Francisco, CA	N/A	Fee Simple Industrial/Flex Office Park	\$12	\$12	-	25%
10. 215 Markham Road	Jan-98 to Mar-01	Ontario, Canada	N/A	Fee Simple Multi-Family	\$7	\$7	-	11%
11. 340 Laurier Avenue	Apr-98 to Jul-02	Ontario, Canada	N/A	Fee Simple Office Building	\$23	\$23	-	7%
12. One North Main Street	Apr-98 to Jul-00	Ann Arbor, MI	N/A	Fee Simple Office Building	\$8	\$8	-	23%
13. MJM	May-98 to Dec-99	Montreal, Canada	N/A	Mortgage Loan Bridge Loan	\$6	\$6	-	16%
14. MBL/IBM Building	Jun-98 to Sep-03	Kansas City, MO	N/A	Fee Simple Condominium Interest & Loan	\$14	\$14	-	10%

NOTE: See endnotes at end of Exhibit E.

Fund Name: JER FUND I
Manager: JER Partners
Through December 31, 2003 ⁽¹⁾
(amounts in millions)

Investment	Investment Period	Location	Inv. Stage	Security Type / Property Type	Inv. Amount ⁽²⁾	Realized Amount	Current Value ⁽²⁾	Realized & Projected Gross IRR ⁽⁴⁾⁽⁵⁾
15. SNI CMBS	Jun-98 to Dec-03	CMBS	N/A	CMBS	\$11	\$11	-	17%
16. 1980 Tarob Court	Jul-98 to Nov-00	Milpitas, CA	N/A	Fee Simple Industrial/Flex Office Park	\$13	\$13	-	21%
17. 1400 Wilson	Aug-98 to Aug-01	Arlington, VA	N/A	Fee Simple Office Building	\$15	\$15	-	27%
18. Bannockburn I	Aug-98 to Jun-03	Washington, DC Metropolitan Area	N/A	Joint Venture Capital Participating Loan	\$4	\$4	-	32%
19. ISM	Sep-98	France, Spain, Italy	N/A	Equity Capital Operating Company	\$39	\$34	\$5	28%
20. Shady Grove	Oct-98 to Jun-03	Rockville, MD	N/A	Fee Simple Land	\$9	\$9	-	- ⁽⁷⁾
21. Inverprim	Oct-98 to Oct-03	Mexico	N/A	Various Non-Performing Loan Portfolio	\$10	\$10	-	- ⁽⁷⁾
22. Chase Tower	Nov-98 to Oct-02	Chevy Chase, MD	N/A	Fee Simple Office Building	\$29	\$29	-	8%
23. SASCO 1997-N1 (49%)	Nov-98 to Dec-02	North America	N/A	Various Loan & REO Portfolio	\$58	\$58	-	18%
24. Potomac Center	Dec-98 to Feb-03	Washington, DC	N/A	Fee Simple Office Buildings	\$53	\$53	-	16%
25. International Place	Jan-99 to Mar-02	Arlington, VA	N/A	Fee Simple Office Building	\$51	\$51	-	13%
26. CMCMT-98C1 (A)	Apr-99 to Mar-02	CMBS	N/A	CMBS	\$15	\$15	-	14%
27. Midpoint Technology Park	May-99 to Jan-03	Redwood City, CA	N/A	Mortgage Loan Participating Mezzanine Loan	\$23	\$23	-	- ⁽⁷⁾

NOTE: See endnotes at end of Exhibit E.

Fund Name: JER FUND I
Manager: JER Partners
 Through December 31, 2003 ⁽¹⁾
 (amounts in millions)

Investment	Investment Period	Location	Inv. Stage	Security Type / Property Type	Inv. Amount ⁽²⁾	Realized Amount	Current Value ⁽²⁾	Realized & Projected Gross IRR ⁽⁴⁾⁽⁵⁾
28. CMCMT 98 (B)	Jun-99 to Apr-01	CMBS	N/A	CMBS	\$5	\$5	-	15%
29. GEPRIM	Jul-99 to Mar-01	Paris, France	N/A	Fee Simple Industrial/Warehouse	\$5	\$5	-	0%
30. 1275 K Street	Nov-99 to May-02	Washington, DC	N/A	Fee Simple Office Building	\$48	\$48	-	15%
31. FASIT Bonds (B)	Jul-00 to May-02	CMBS	N/A	CMBS	\$12	\$12	-	9%
32. DLJ Bonds ⁽⁶⁾	Aug-00	CMBS	N/A	CMBS	\$4	\$4	-	- ⁽⁶⁾
33. 55 West Wacker	Oct-00 to Aug-03	Chicago, IL	N/A	Fee Simple Office Building	\$10	\$10	-	27%
34. CSFB 2001 Bonds ⁽⁶⁾	Dec-00	CMBS	N/A	CMBS	\$6	\$6	-	- ⁽⁶⁾
35. CDO Transaction ⁽⁷⁾		CMBS	N/A	CMBS				
a. SASCO C3 Class G&H	Oct-97				-	-	-	28%
b. SPICE CMBS	Dec-97				-	-	-	25%
c. SASCO C3 Class F&H	Jan-98				-	-	-	20%
d. Salomon CMBS	Apr-99				-	-	-	2%
e. REIT CMBS	May-99				-	-	-	13%
f. MS RR 97	Aug-99				-	-	-	16%
g. AEW 95	Aug-99 to Dec-03				-	-	-	21%
h. Midland CMBS	Oct-99				-	-	-	17%
i. MD3 CMBS	Dec-99				-	-	-	15%
j. REIT 2000	Apr-00				-	-	-	14%
k. DLJ Bonds	Aug-00				-	-	-	18%
l. CSFB 2001 Bonds	Dec-00				-	-	-	26%
Subtotal - CDO Transaction					\$154	\$101	\$52	20%
REALIZED INVESTMENTS (FULL AND PARTIAL) SUBTOTAL ⁽⁸⁾					\$951	\$894	\$57	20%

NOTE: See endnotes at end of Exhibit E.

Fund Name: JER FUND I
Manager: JER Partners
Through December 31, 2003 ⁽¹⁾
(amounts in millions)

Investment	Investment Period	Location	Inv. Stage	Security Type / Property Type	Inv. Amount ⁽²⁾	Realized Amount	Current Value ⁽³⁾	Realized & Projected Gross IRR ⁽⁴⁾⁽⁵⁾
<u>Unrealized Investments ⁽¹⁰⁾</u>								
36. 1860 Lincoln	Dec-97	Denver, CO	N/A	Fee Simple Office Building	\$27	-	\$27	7%
37. JER Hudson Housing	Feb-98	Headquartered in New York	N/A	Equity Operating Company/Mezz Loan	\$14	\$7	\$7	- ⁽⁷⁾
38. One Market Street	Apr-98	San Francisco, CA	N/A	Fee Simple Office Building	\$29	\$16	\$14	15%
39. Blossom	Oct-98	San Antonio, TX	N/A	Fee Simple Office/Warehouse Park	\$11	-	\$11	19%
40. Austin Technology Park	Dec-99	Austin, TX	N/A	Fee Simple Office/Industrial Warehouse Park	\$32	\$11	\$20	11%
41. Merrill Canada CMBS	May-00	CMBS	N/A	CMBS	\$5	\$1	\$3	12%
42. Brauvin I	Aug-00	North America	N/A	Fee Simple Triple Net Properties Portfolio	\$8	\$5	\$3	20%
43. Kendall Square	Dec-00	Cambridge, MA	N/A	Fee Simple Biotech/Office Park	\$100	-	\$100	6%
44. Brauvin II	Jan-01	North America	N/A	Fee Simple Triple Net Properties Portfolio	\$13	\$7	\$6	24%
UNREALIZED INVESTMENTS SUBTOTAL ⁽¹⁰⁾					\$238	\$47	\$192	9%
JER Fund I Total ⁽¹¹⁾					\$1,190	\$940	\$249	18%
NOTE: See endnotes at end of Exhibit E.								

Fund Name: JER FUND II
Manager: JER Partners
Through December 31, 2003 ⁽¹⁾
(amounts in millions)

Investment	Investment Period	Location	Inv. Stage	Security Type / Property Type	Inv. Amount ⁽²⁾	Realized Amount	Current Value ⁽³⁾	Realized & Projected Gross IRR ⁽⁴⁾⁽⁵⁾
Realized Investments (Full and Partial) ⁽⁶⁾								
1. FASIT Bonds (A)	Jun-99 to May-02	CMBS	N/A	CMBS	\$20	\$20	-	16%
2. Arlington Gateway	Jun-99 to Feb-03	Arlington, VA	N/A	Fee Simple Mixed-Use Land Parcels	\$37	\$37	-	7%
3. Clarendon Town Center	Jun-99 to May-00	Arlington, VA	N/A	Fee Simple Land	\$12	\$12	-	48%
4. Affine	Aug-99 to Jan-03	France	N/A	Equity Operating Company	\$3	\$3	-	16%
5. FSC Residential	Jan-00 to Feb-03	West Los Angeles, CA	N/A	Fee Simple Multi-Family Portfolio	\$26	\$26	-	25%
6. Columbia House	Feb-00 to Sep-02	Washington, DC	N/A	Fee Simple Land Parcels/Loan & Office Building	\$39	\$39	-	21%
7. 1300 N Street	May-00 to Jun-02	Washington, DC	N/A	Fee Simple Multi-Family Land	\$6	\$6	-	24%
8. 6th & G Street	May-00 to Dec-02	Washington, DC	N/A	Fee Simple Multi-Family Land	\$3	\$3	-	12%
9. Burtonwood Pubs	Jul-00 to Jul-02	UK: Midland and Wales	N/A	Fee Simple Public Houses (Pubs)	\$15	\$15	-	24%
10. FASIT Bonds (B)	Jul-00 to May-02	CMBS	N/A	CMBS	\$12	\$12	-	16%
11. 1210 Massachusetts	Aug-00 to Jun-02	Washington, DC	N/A	Fee Simple Multi-Family Land	\$5	\$5	-	21%
12. DLJ Bonds	Aug-00	CMBS	N/A	CMBS	\$19	\$16	\$3	30%
13. Olde Salem Village	Oct-00 to Jun-03	Arlington, VA	N/A	Fee Simple Multi-Family	\$10	\$10	-	32%

NOTE: See endnotes at end of Exhibit E.

Fund Name: JER FUND II Manager: JER Partners Through December 31, 2003 ⁽¹⁾ (amounts in millions)								
Investment	Investment Period	Location	Inv. Stage	Security Type / Property Type	Inv. Amount ⁽²⁾	Realized Amount	Current Value ⁽³⁾	Realized & Projected Gross IRR ⁽⁴⁾⁽⁵⁾
14. CSFB 2001 Bonds	Dec-00	CMBS	N/A	CMBS	\$27	\$14	\$13	48%
15. Palsades	Jan-01 to Apr-01	Austin, TX	N/A	Fee Simple Land	\$6	\$6	-	121%
16. Park Plaza	Jul-99 to Oct-03	Paris, France	N/A	Fee Simple	\$10	\$10	-	9%
17. 55 West Wacker	Oct-00 to Aug-03	Chicago, IL	N/A	Fee Simple Office Building	\$10	\$10	-	27%
18. 915 E Street	Jan-01 to Oct-03	Washington, DC	N/A	Fee Simple Multi-Family Land	\$10	\$10	-	7%
REALIZED INVESTMENTS (FULL AND PARTIAL) SUBTOTAL ⁽⁶⁾					\$270	\$254	\$16	20%
Unrealized Investments ⁽⁷⁾								
19. MD3 CMBS	Dec-99	CMBS	N/A	CMBS	\$23	-	\$23	27%
20. Austin Technology Park	Dec-99	Austin, TX	N/A	Fee Simple Office/Industrial Warehouse Park	\$32	\$11	\$20	11%
21. Bannockburn II	Mar-00	Washington, DC Metropolitan Area	N/A	Joint Venture Capital Participating Loan	\$3	\$3	-	60%
22. Las Americas	Mar-00	San Diego, CA	N/A	Fee Simple Retail Shopping Center	\$85	-	\$85	15%
23. REIT 2000	Apr-00	CMBS	N/A	CMBS	\$3	-	\$3	33%
24. Allied London	Apr-00	Geographically Diverse in UK	N/A	Equity Operating Company	\$280	\$135	\$145	12%
25. 300 West Sixth Street	May-00	Austin, TX	N/A	Fee Simple Office Building	\$68	-	\$68	13%
26. Merrill Canada CMBS	May-00	CMBS	N/A	CMBS	\$5	\$1	\$3	12%
NOTE: See endnotes at end of Exhibit E.								

Fund Name: JER FUND II**Manager: JER Partners**Through December 31, 2003 ⁽¹⁾

(amounts in millions)

Investment	Investment Period	Location	Inv. Stage	Security Type / Property Type	Inv. Amount ⁽²⁾	Realized Amount	Current Value ⁽²⁾	Realized & Projected Gross IRR ⁽⁴⁾⁽⁵⁾
27. Brauvn I	Aug-00	North America	N/A	Fee Simple Triple Net Properties Portfolio	\$8	\$5	\$3	20%
28. Hemingway	Sep-00	London, UK	N/A	Fee Simple Office Buildings	\$23	-	\$23	- ⁽⁶⁾
29. MS Franchise	Sep-00	CMBS	N/A	CMBS	\$5	\$2	\$3	3%
30. Benchmark	Oct-00	London, UK	N/A	Fee Simple Office Buildings	\$191	\$43	\$149	- ⁽⁶⁾
31. Twinbrook	Nov-00	Rockville, MD	N/A	Fee Simple Office/Lab Park	\$116	\$20	\$96	32%
32. Kendall Square	Dec-00	Cambridge, MA	N/A	Fee Simple Biotech/Office Park	\$100	-	\$100	6%
33. Brauvn II	Jan-01	North America	N/A	Fee Simple Triple Net Properties Portfolio	\$13	\$7	\$6	24%
34. Catalyst	Feb-01	London and Provincial UK	N/A	Fee Simple Office Buildings	\$70	\$33	\$36	19%
35. Resolution	Apr-01	London, UK	N/A	Fee Simple Office Buildings	\$89	\$2	\$87	- ⁽⁶⁾
36. 1412 Broadway	Jun-01	New York, NY	N/A	Fee Simple Office Building	\$95	-	\$95	15%
37. CSFB 2002 Bonds	Dec-01	CMBS	N/A	CMBS	\$26	\$8	\$18	33%
38. Titan Bonds	Feb-02	CMBS	N/A	CMBS	\$7	\$6	\$1	47%
39. ALF Portfolio	Apr-02	North America	N/A	Fee Simple Assisted Living Facilities	\$74	\$1	\$72	24%

NOTE: See endnotes at end of Exhibit E.

Fund Name: JER FUND II Manager: JER Partners Through December 31, 2003 ⁽¹⁾ (amounts in millions)								
Investment	Investment Period	Location	Inv. Stage	Security Type / Property Type	Inv. Amount ⁽²⁾	Realized Amount	Current Value ⁽³⁾	Realized & Projected Gross IRR ⁽⁴⁾⁽⁵⁾
40. Belgrave House	Apr-02	London, UK	N/A	Fee Simple Office Building	\$76	-	\$76	5%
41. ALF II Portfolio	Oct-02	North America	N/A	Fee Simple Assisted Living Facilities	\$21	-	\$21	27%
42. CSFB 2002 FL2 Bonds	Dec-02	CMBS	N/A	CMBS	\$34	\$4	\$30	22%
43. Titan II Bonds	Dec-02	CMBS	N/A	CMBS	\$10	\$5	\$6	119%
44. Titan III Bonds	May-03	CMBS	N/A	CMBS	\$3	\$1	\$3	48%
45. Department of Transportation	Sep-03	Washington, DC	N/A	Fee Simple Office Building	\$6	-	\$6	25%
UNREALIZED INVESTMENTS SUBTOTAL ⁽¹⁾					\$1,464	\$286	\$1,178	12%
JER Fund II Total					\$1,734	\$540	\$1,195	14%
NOTE: See endnotes at end of Exhibit E.								

ENDNOTES TO INVESTMENT PERFORMANCE TABLES

Endnotes for JER FUND I:

- (1) Except as noted below, results were calculated using actual results through December 31, 2003 and projections prepared by JER for the period thereafter. For investments denominated in foreign currency, historical and projected cash flows are converted from the applicable local currency to U.S. dollars at the exchange rates prevailing on the dates the respective investments are initially made.
- (2) Inv. Amount equals JER Fund I's share of acquisition costs (including due diligence, legal fees and other transaction-related costs) and on-going capital expenditures (if any) before reductions in basis for full and partial dispositions of underlying assets. Inv. Amount for investments denominated in foreign currency are converted to the currency presented using the December 31, 2003 exchange rate.
- (3) Current Value equals JER Fund I's share of current cost basis (i.e., pro rata share of gross cost basis less pro rata share of return of capital to date due to whole/partial sales). Current Value for investments denominated in foreign currency are converted to the currency presented using the December 31, 2003 exchange rate.
- (4) Realized and Projected Gross IRR reflect all asset level costs and expenses (including asset management fees and third party carried interest) but do not reflect investor note facility fund level debt, fund level expenses, timing of investor contributions/distributions, investment management fees, general partner carried interest, foreign currency gains and losses, and other portfolio expenses borne by the Investors in the fund.
- (5) Realized and Projected Gross IRR reflect actual or projected indebtedness incurred or assumed at the individual investment level (excluding CMBS repurchase agreement debt). For Merrill Canada CMBS, projected results include repurchase agreement debt.
- (6) Realized Investments include all assets that have been fully realized (i.e., investments that no longer have remaining assets except for, if any, de minimis assets) or partially realized (i.e., investments that have distributed cash in an amount equal to capital contributions plus 33% or more of total projected profits), as of December 31, 2003. The Realized and Projected Gross IRR subtotal for Realized Investments includes CMBS repurchase debt.
- (7) Investment is expected to incur overall loss. Expected loss is incorporated in overall returns of the fund.
- (8) JER Fund I maintains control over the "interest only" classes of the DLJ Bonds and CSFB 2001 Bonds. The gross IRRs for these "interest only" classes are included as part of the CDO Transaction. *See Endnote 9 for more details on the CDO Transaction.*
- (9) In September 2002, the partial sale of a substantial majority of the JER Fund I CMBS portfolio was accomplished through the issuance of a collateralized debt obligation ("CDO Transaction"). The partial sale proceeds have been allocated across the respective bond positions and the performance of the individual transactions are reported on an asset-specific basis.
- (10) Unrealized Investments include all assets that are not Realized Investments.

- (11) Realized and Projected Gross IRR for JER Fund I Total includes actual or projected indebtedness incurred or assumed at the asset level and CMBS repurchase debt.

Endnotes for JER FUND II:

- (1) Except as noted below, results were calculated using actual results through December 31, 2003 and projections prepared by JER for the period thereafter. For investments denominated in foreign currency, historical and projected cash flows are converted from the applicable local currency to U.S. dollars at the exchange rates prevailing on the dates the respective investments are initially made.
- (2) Inv. Amount equals JER Fund II's share of acquisition costs (including due diligence, legal fees and other transaction-related costs) and on-going capital expenditures (if any) before reductions in basis for full and partial dispositions of underlying assets. Inv. Amount for investments denominated in foreign currency are converted to the currency presented using the December 31, 2003 exchange rate.
- (3) Current Value equals JER Fund II's share of current cost basis (i.e., pro rata share of gross cost basis less pro rata share of return of capital to date due to whole/partial sales). Current Value for investments denominated in foreign currency are converted to the currency presented using the December 31, 2003 exchange rate.
- (4) Realized and Projected Gross IRR reflect all asset level costs and expenses (including asset management fees, third party carried interest and CMBS repurchase agreement debt) but do not reflect investor note facility fund level debt, fund level expenses, timing of investor contributions/distributions, investment management fees, General Partner carried interest, foreign currency gains and losses, and other portfolio expenses borne by the Investors in the fund.
- (5) Realized and Projected Gross IRR reflects actual or projected indebtedness incurred or assumed at the individual investment level (including CMBS repurchase agreement debt).
- (6) Realized Investments include all assets that have been fully realized (i.e., investments that no longer have remaining assets except for, if any, de minimus assets) or partially realized (i.e., investments that have distributed cash in an amount equal to capital contributions plus 33% or more of total projected profits), as of December 31, 2003.
- (7) Unrealized Investments include all assets that are not Realized Investments.
- (8) Investment is expected to incur overall loss. Expected loss is incorporated in overall returns of the fund.

EXHIBIT F - Investor Reporting



March 31, 2004

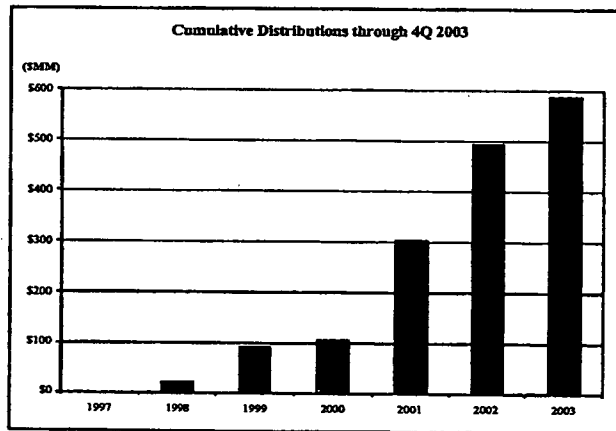
Re: **JER Fund I 4th Quarter 2003 Performance Report**

To Our Partners:

We are pleased to provide the following quarterly performance report for JER Real Estate Partners I ("JER Fund I"). This report covers the three-month period ending December 31, 2003 and is based upon audited financial information. It should be reviewed together with the year-end 2003 audited financial statements.

Section A – Significant Activities

1. **Cash Distributions to Partners.** JER Fund I continued to make cash distributions to partners through dispositions of assets and operating income. During the 4th quarter, JER Fund I distributed \$8 million to investors, increasing total distributions to the limited partners since inception of the fund to \$589 million. As a result, JER Fund I has returned 100% of the total \$505 million capital called plus an additional \$84 million in proceeds on a net basis back to investors.²



2. **Major Transactions.** During the 4th quarter, JER Fund I had three major realizations of assets.
 - (i) *Inverprim* – the final asset in the non-performing loan portfolio in Mexico was sold in October 2003 for USD\$20.2 million in gross proceeds. This asset was a hotel property located in Acapulco, Mexico and sold five months after taking possession of the property. This

² Please note that the original capital commitment of JER Fund I was \$435 million; however, an additional \$70 million was returned to investors during the investment period and subsequently "recycled" into new investments. Therefore, total capital called by JER Fund I was \$505 million.

disposition was \$3.2 million in excess of the business plan presented at the March 2003 Investor Conference.

- (ii) *Chase SN1 Bonds* – This trust has been collapsed as all of the loans in the pool have been repaid as of December 2003. The investment outperformed underwriting in terms of cash collections and assumed loan losses. The underlying loan pool initially consisted of 59 loans with a balance of \$260 million. Original underwriting projected total loan losses of \$7.9 million and actual losses were only \$0.9 million.
 - (iii) *95 AEW Bonds (within the JER CDO 2002 – 1 Trust)* - This trust has been collapsed as all of the loans in the pool have been repaid as of December 2003. The investment outperformed underwriting in terms of cash collections and assumed loan losses. The underlying loan pool initially consisted of 53 loans with a balance of \$101 million. Original underwriting projected total loan losses of \$3.3 million and actual losses were only \$19,100.
3. Disposition Summary. Including this quarter's activities, JER Fund I, since inception, has fully realized 32 investments and partially realized an additional 12 investments of the total 53 acquired.³ Measured from a cost basis perspective, of the total \$1.2 billion in total cost basis acquired by JER Fund I, \$941 million (or 79%) has been fully realized through the 4th quarter 2003. JER Fund I's net current cost basis in the remaining 9 unrealized investments and 12 partially realized investments is \$249 million.

Section B – IRR/Return Summary⁴

1. Realized Investments. For the 44 fully and partially realized investments as of December 31, 2003, the gross IRR for JER Fund I is 20% with \$341 million in realized and projected gross profits. The Inverprim investment resulted in a loss of \$7 million. The collapse of the Chase SN1 trust resulted in a gross unleveraged 17% IRR with profits of \$5 million. The collapse of the 95 AEW trust resulted in a gross unleveraged 21% IRR with profits of \$16 million.
2. Projected "Life of Fund" Gross Returns. Based on current business plans as of 4th quarter 2003, the "life of fund" gross IRR for JER Fund I remains at 18% with \$407 million in gross profits based upon actual leverage (weighted average of 46% loan to cost over life of fund).

³ Fully realized are those investments that no longer have remaining assets except for, if any, de minimis assets. Partially realized are those investments that have distributed cash in an amount equal to capital contributions plus 33% or more of total projected profits, as of December 31, 2003.

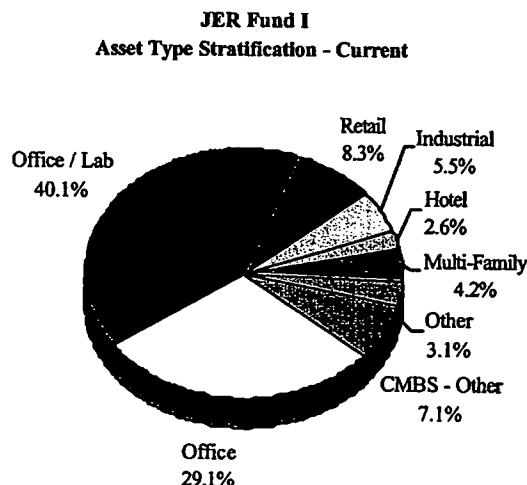
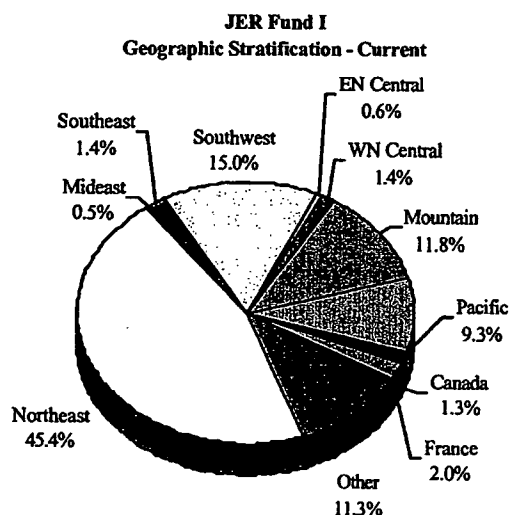
⁴ Projected returns are calculated using actual results through December 2003 and projections prepared by JER for the period thereafter. For investments denominated in foreign currency, cash flows are converted from the applicable local currency to U.S. dollars at the exchange rate prevailing at the date the investment is initially made. All IRRs and profits presented herein are "gross" and reflect all asset level costs and expenses (including asset management fees and third party carried interest) but do not reflect investor note facility fund level debt, fund level expenses, timing of investor contributions/distributions, investment management fees, General Partner carried interest, foreign currency gains and losses, and other portfolio expenses borne by the Investors in the fund.

JER Fund I – Realized and Projected Gross Returns

	<u>Capital Commitment</u>	<u>Number Invests.</u>	<u>Realized and Projected IRR</u>	<u>Realized and Projected Profit</u>	<u>Equity Multiple</u>
Total Investments	\$435 million	53	18%	\$407 million	1.9x

Section C – Overview of Remaining Portfolio

1. Diversified Portfolio. The remaining 9 unrealized and 12 partially realized investments in JER Fund I continue to be diversified in terms of geography, property type and tenant base. More than half the properties are “stabilized” while the balance is in the process of completing repositioning. 1860 Lincoln, One Kendall Square and the CMBS bonds represent the largest remaining investments in JER Fund I (as measured by pro rata share of cost basis). The charts below are stratified based upon current cost basis.



“Other” component includes operating companies.

2. Current Cost Basis and Loan-to-Cost. The current cost basis in the remaining 9 unrealized and 12 partially realized investments is \$249 million based on JER Fund I’s “pro rata” share of all investments. The total debt of JER Fund I (per the compliance with leverage guidelines schedule) including its proportionate share of non-consolidated joint venture asset-level debt is \$113 million. JER Fund I has no outstanding fund level indebtedness. The debt to current cost basis ratio is 45% as of December 31, 2003.
3. Performance Statistics. Real estate investments (which represent 73% of the total cost basis of all investments and exclude land, CMBS and operating companies) remain well leased and cash flowing. Occupancy of the real estate investments is at 80% and the unleveraged yield is 8% as of December 31, 2003.

Section D – Quarterly Financial Results

1. **Net Income and Returns.** For the three-month period ending December 31, 2003, JER Fund I's net income was \$3.4 million, consisting of \$8.6 million in net investment income, \$(4.7) million in realized losses and \$(0.5) million in unrealized losses (in each case as adjusted for minority interests). The chart below presents the results and gross time-weighted returns (TWRs) for the periods indicated (as adjusted for minority interests):

Financial Results and Time Weighted Returns for JER Fund I
(all dollars in millions)

	Net Invest. Income	Realized Gains/(Losses)	Unrealized Gains/(Losses)	Net Income
4th Quarter 2003:				
- Financial Results	\$8.6	\$(4.7)	\$(0.5)	\$3.4
- Gross TWRs	5.4%	(2.9)%	(0.3)%	2.1%
Twelve Months Ended December 31, 2003:				
- Financial Results	\$39.4	\$(12.6)	\$(11.4)	\$15.4
- Gross TWRs	22.3%	(6.3)%	(6.1)%	8.5%

2. **Realized Gains/(Losses).** For the three-month period ended December 31, 2003, the realized losses (as adjusted for minority interests) primarily include a \$(4.7) million loss on the sale of Inverprim that was previously recognized in unrealized gains (losses) in prior periods.
3. **Fair Value Adjustments and Other Unrealized Gains/(Losses).** For the three-month period ended December 31, 2003, unrealized gains (as adjusted for minority interests) primarily include: (a) \$2.0 million mark-to-market fair value adjustment on the marketable CMBS investments, (b) \$(0.7) million net currency translation/foreign currency hedges, and (c) \$2.8 million net reversal of unrealized adjustments for investments that were realized this quarter. Based on current management business plans as of December 31, 2003 and pursuant to the in-place fair value policy, JER Fund I recognized the following fair value adjustments: (a) \$(3.5) million write-down on One Kendall Square and (b) \$(1.1) million write-down on 1860 Lincoln Street.



March 31, 2004

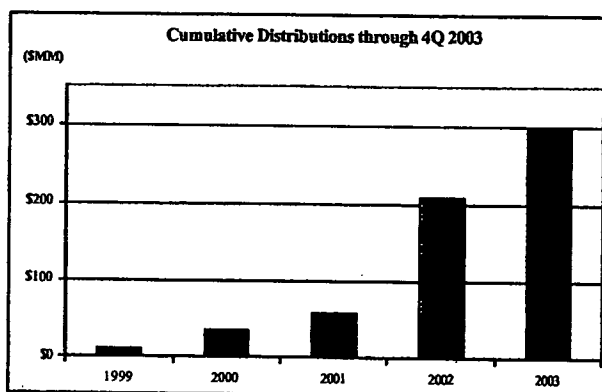
Re: JER Fund II 4th Quarter 2003 Performance Report

To Our Partners:

We are pleased to provide the following quarterly performance report for JER Real Estate Partners II ("JER Fund II"). This report covers the three-month period ending December 31, 2003 and is based upon audited financial information. It should be reviewed together with the year-end 2003 audited financial statements.

Section A – Significant Activities

1. Capital Contributions and Distributions to Partners. JER Fund II continued to make cash distributions to partners through dispositions of assets and operating income. Since inception, a total of \$300 million representing 49% of total capital called to date has been distributed to limited partners. \$239 million of the \$300 million in total distributions represents return of capital for purposes of determining Unpaid Capital Commitment (as defined in the partnership agreement). Net Unpaid Capital Commitment for JER Fund II is \$204 million as of December 31, 2003, a decrease in the quarter of \$14.2 million due to the funding of the DOT investment.



2. Disposition Summary. As of 4th quarter 2003, JER Fund II has fully realized 16 investments and partially realized an additional 2 investments of the total 45 investments acquired.⁵
 - (i) *Park Plaza* – two hotels with 226-rooms located in France were sold for gross proceeds of €11.8 million (\$12.2 million) or €52,200/room (\$54,000/room). This disposition was in accordance with the business plan presented at the March 2003 Investor Conference.

⁵ Fully realized are those investments that no longer have remaining assets except for, if any, de minimis assets. Partially realized are those investments that have distributed cash in an amount equal to capital contributions plus 33% or more of total projected profits, as of December 31, 2003.

- (ii) *915 E Street* – a 17,350 sf development site located in Washington, DC for \$14.5 million in gross proceeds. This disposition was in accordance with the business plan presented at the March 2003 Investor Conference.

There was a partial realization within the European investments during the 4th quarter.⁶

- (iii) *Allied London* – St. Albans, a 68,000 sf retail property located in South East England, was sold for £19.9 million (\$35.4 million) or £293/sf (\$520/sf). Completion of the sale occurred in December 2003.

There was an additional partial realization within the European investments subsequent to the 4th quarter.

- (iv) *Hemingway* – Guildford, a 36,295 sf office/retail property located in Surrey, England, was sold for £12.25 million (\$21.8 million) or £338/sf (\$600/sf). Completion of the sale occurred in January 2004.

- (v) *Catalyst* – Edmund House, an 80,023 sf office property located in Birmingham, England, was sold for £20.6 million (\$36.6 million) or £254/sf (\$457/sf). Completion of the sale occurred in March 2004. At the time of sale, the property was undergoing refurbishment of several floors. The building was sold at “completed value”, and the buyer agreed to pay the majority of the proceeds up front with deferred payments linked to the completion of each phase of the refurbishment.

Section B – IRR/Return Summary⁷

1. **Realized Investments.** For the 18 fully and partially realized investments through December 2003, the gross IRR is 20% with \$71 million in realized and projected gross profits.
2. **Projected “Life of Fund” Gross Returns.** Based on current business plans as of 4th quarter 2003, the “life of fund” gross IRR for JER Fund II is 14% with \$388 million in gross profits.

JER Fund II – Realized and Projected Gross Returns

	Capital Commitment	Number Invests.	Realized and Projected IRR	Realized and Projected Profit	Equity Multiple
JER Fund II	\$596	45	14%	\$388 million	1.7x

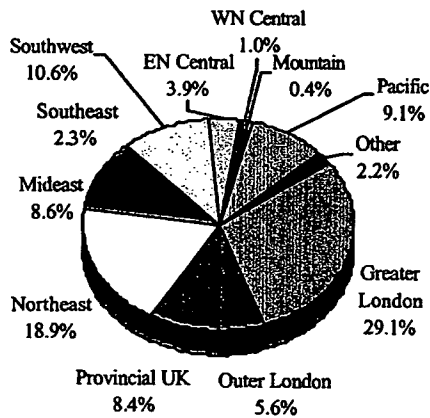
⁶ The proceeds for the Allied London, Hemingway, and Catalyst investments were converted from local currency to the currency presented using the December 31, 2003 exchange rate.

⁷ Projected returns are calculated using actual results through December 2003 and projections prepared by JER for the period thereafter. For investments denominated in foreign currency, cash flows are converted from the applicable local currency to U.S. dollars at the exchange rate prevailing at the date the investment is initially made. All IRRs and profits presented herein are “gross” and reflect all asset level costs and expenses (including asset management fees and third party carried interest) but do not reflect investor note facility fund level debt, fund level expenses, timing of investor contributions/distributions, investment management fees, General Partner carried interest, foreign currency gains and losses, and other portfolio expenses borne by the Investors in the fund.

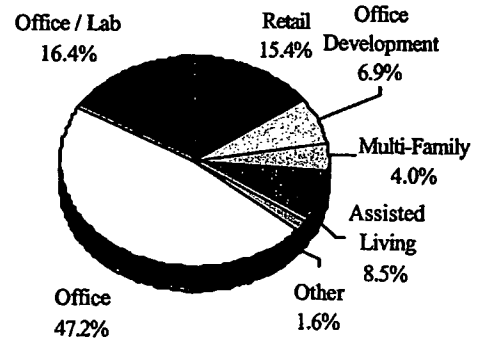
Section C – Overview of Remaining Portfolio

1. **Diversified Portfolio.** As of 4th quarter 2003, JER Fund II has 27 unrealized investments and 2 partially realized investments consisting of 12 assets located in the United States, 6 in the United Kingdom and 11 CMBS bonds. The portfolio is well diversified in terms of geography, property type, and tenant base. The charts below are stratified based upon current cost basis.

**JER Fund II
Geographic Stratification - Current**



**JER Fund II
Asset Type Stratification - Current**



"Other" component includes the following: Hotel – 0.8%, Industrial – 0.04%, CMBS Re-REMIC – 0.7%, and Other – 0.1%.

2. **Current Cost Basis and Loan-to-Cost.** As of December 31, 2003, the current cost basis in the 27 unrealized investments and 2 partially realized investments is \$1.2 billion based on JER Fund II's "pro rata" share of all investments. The total debt of JER Fund II (per the compliance with leverage guidelines schedule) including its proportionate share of non-consolidated joint venture asset-level debt is \$815 million, of which \$733 million is at the asset level, \$71 million for CMBS repurchase debt and \$11 million is at the fund level. The debt to current cost basis is 67% as of December 31, 2003.
3. **Performance Statistics.** Real estate investments (which represent 77% of the total cost basis of all investments and excludes land, CMBS and operating companies) is well leased and cash flowing. Occupancy of the real estate investments is at 77% and the unleveraged yield is 7% as of December 31, 2003.

Section D – Quarterly Financial Results

1. **Net Income and Returns.** For the three-month period ending December 31, 2003, JER Fund II's net loss was \$(1.2) million, consisting of \$9.5 million in net investment income, \$(3.0) million in realized losses and \$(7.7) million in unrealized losses (in each case as adjusted for minority interests). The chart below presents the results and gross time-weighted returns (TWRs) for the periods indicated (as adjusted for minority interests):

Financial Results and Time Weighted Returns for JER Fund II
(all dollars in millions)

	Net Invest. Income	Realized Gains/(Losses)	Unrealized Gains/(Losses)	Net Income (Loss)
4th Quarter 2003:				
- Financial Results	\$9.5	\$(3.0)	\$(7.7)	\$(1.2)
- Gross TWRs	2.7%	(0.9)%	(2.2)%	(0.3)%
Twelve Months Ended December 31, 2003:				
- Financial Results	\$28.6	\$5.7	\$(42.6)	\$(8.3)
- Gross TWRs	7.9%	1.4%	(10.8)%	(2.2)%

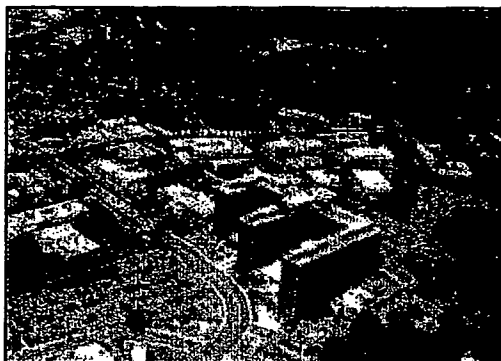
2. **Realized Gains/(Losses).** For the three-month period ended December 31, 2003, realized losses (as adjusted for minority interests) primarily include (a) \$(1.3) million net loss on currency transactions, (b) \$(3.9) million loss on the sale of Park Plaza, (c) \$1.7 million gain on the sale of 915 E Street, and (d) \$0.7 million gain on Arlington Gateway.
3. **Fair Value Adjustments and Other Unrealized Gains/(Losses).** For the three-month period ended December 31, 2003, net unrealized losses (as adjusted for minority interests) primarily include: (a) \$(7.2) million fair value adjustment on the CMBS investments, (b) \$(5.5) million, net, in translation adjustments for foreign currency denominated investments and the mark-to-market of outstanding foreign currency hedge positions, and (c) \$0.8 million net reversal of unrealized adjustments for investments that were realized this quarter. Based on current management business plans as of December 31, 2003 and pursuant to the in-place fair value policy, JER Fund II recognized the following fair value adjustments: (a) \$(1.2) million write-down on Resolution, (b) \$(3.5) million write-down on One Kendall Square, (c) \$(1.3) million write-down on Benchmark, (d) \$(4.0) write-down on Belgrave House, and (e) mark ups of \$11.1 million and \$3.1 million on ALF I and ALF II, respectively, due to the tenants successful emergence from bankruptcy.

Semi-Annual Asset Summaries - Sample

Twinbrook Portfolio, Rockville, MD

December 2003

Investment Overview At Acquisition



- In October 2000, JER Fund II acquired the Twinbrook Portfolio, an office/lab park located in the I-270 corridor in Rockville, MD, for \$82.5 million. The underwritten leveraged return was 20.0% with profits to JER Fund II of \$25.4 million. Going-in yield was 12.0%. JER Fund II owns 80%, and JBG owns 20%.
- The portfolio consisted of 18 properties totaling 615,000 sf. Approximately 550,000 sf was comprised of stabilized income producing assets. The remaining 65,000 sf consisted of short-term leased assets located on sites that could be redeveloped to support 570,000 sf of new development. The allocated purchase price equated to \$126/sf for office, \$167/sf for laboratory, \$87/sf for industrial and \$143/sf for retail; the total portfolio average cost was \$143/sf.

SUMMARY

- **Performance Overview:** The Twinbrook Portfolio continues to perform in excess of original underwriting. All four of the assets targeted for disposition to date have been sold. The balance of assets continues to perform in accordance with the business plan. The partnership is pursuing its value-enhancement strategies including lease renewals, individual asset refinancings and dispositions, as appropriate. All of the remaining assets are to be sold over the next seven years. JER/JBG has also been successful in securing long-term 10-year and 20-year build-to-suit lease opportunities with the National Institute of Health ("NIH") that will serve to create additional profit opportunities and increase the value and concentration of NIH within the business park.
- **Current Status:** The project is 94.2% leased, the majority of which is leased to the GSA (users include NIH and U.S. Food & Drug Administration ("FDA")). The minor vacancy is within one of the older 1960s vintage projects slated for redevelopment, subject to pre-leasing. Construction work is almost complete on 220,000 sf of 100% pre-leased lab and office space for NIH. Upon distribution of excess bond proceeds, JER will have received its projected residual interest as well. In addition to these two build-to-suit developments, the partnership has been completing construction of its 60% pre-leased (GSA/NIH) 183,000 sf lab/office building. The expectation is that GSA will ultimately commit to the remainder of space after building delivery in 1Q 2004. NIH leasing activity slowed throughout 2003, but there has been a recent pick-up in activity. Overall, the three assets under construction are 82% pre-leased. The partnership has received a return of all equity capital invested as well as a realized return to date of 25% of invested capital. In November, in an effort to clarify certain components of the operating agreement and modify other provisions, the partnership executed an amendment that: (i) clarified each partner's current ownership percentages, (ii) released certain realized but escrowed carried interest profits held back under the 10% IRR cross-collateralization, (iii) established an agreed funding mechanism for new capital contributions, if any are required, and (iv) provided for an individual asset by asset buy/sell in lieu of a transfer of the entire portfolio.
- **Projected Returns:** The projected leveraged IRR is 32.1% with projected profits of \$33.5 million.
- **Major Risk Factors:** Terminal cap rates/residual values at disposition and achieving increased rental rates at the time of lease rollover are the most significant risks. The partnership is setting the upper levels of price per square foot sales in the Twinbrook market as a result of low going-in cap rates on government leased buildings, many of which were built in the late 1960s and mid-1970s. However, rental rates in the submarket are stable and government leases are typically renewed at rollover at flat to modest increases.
- **Sensitivity Analysis:**

- "Upside": Assumes accelerating sale date on two properties by 2 years and increasing residual value for the remaining properties by 20%. This will result in an IRR of 33.5% with decreased profit of \$37.6 million. Decrease in profits was mitigated by avoidance of heavy leasing costs from Jan-09 to Jul-09.
- "Downside": A 30% decrease in the psf residual of the remaining assets, combined with an increase in the residual cap rate on the 5635 Fishers asset by 100 bps and reducing the overfinanced bond escrow by 30%. This results in an IRR of 29.3% with profits of \$23.2 million.
- **Business Plan Going Forward:** Continue to aggressively manage and lease the business park, recast/extend leases to market rates and seek individual asset financing, where applicable. Dispose of properties in accordance with business plan and pursue additional GSA/NIH build-to-suits.

INVESTMENT DATA

<i>Property Type:</i>	Office - Lab - Industrial	<i>Ownership:</i>	68.0% JER Fund II (inclusive of Bannockburn II/III's interest)
<i>Initial Asset:</i>	18 properties totaling 615,000 sf		32.0% JBG Companies (inclusive of equity and promoter interests)
<i>Date Purchased:</i>	October 27, 2000		
<i>JER Gross Cost:</i>	\$115.7 million	<i>Investment Strategy:</i>	Acquire a stabilized, income-producing property with potential upside to develop up to 564,000 sf of new office/lab space for GSA users.
<i>JER Current Cost:</i>	\$92.3 million		
<i>Fair Value:</i>	\$83.5 million	<i>Investment Period:</i>	October 2000 to March 2010
<i>Financing:</i>	Consolidated: \$139.3 million JER Fund II Share: \$94.7 million Loan to Cost: 102.6%		
<i>DSCR:</i>	1.7x		

Data Entry for:

For the 3 months ending: December 31, 2003 (Final)

Manager: JER Partners (A J.E. Robert Company) Fund: JER Fund I

Client Performance	Gross of Fees ⁽³⁾ %	Net of Fees ⁽¹⁾ %
Income	5.375%	5.375%
Appreciation	-3.332%	-4.530%
Total	2.043%	0.845%

To three decimal places

Client Net IRR (since inception) ⁽⁴⁾	15.01%
Client Ownership of Fund	2.30%
Client Number of Units	N/A

Fund Loan To Value	23.17%
No. Investments In Fund	13
Price Per Unit	N/A

⁽¹⁾ Represents carried interest to GP deducted against gross appreciation return. Investment management fees are deducted against income.

⁽²⁾ Client net IRR is based on net cash flow including deemed distributions for investment management fees. Additional amounts paid among investors relating to the timing of investors initial entry into the partnership have not been included. For purposes of determining Client net IRR, distributions to date are net of amounts paid to the GP for carried interest and the terminal value is equal to the ending partner capital balance.

⁽³⁾ Represents returns before carried interest to GP and investment management fees and after fund level expenses.

Client Cash Flows	
Beginning Net Asset Value	\$ 3,708,537
+ Contributions	-
- Withdrawals	(63,209)
- Distributed Income	(452)
- Distributed Principal	(115,392)
+ Income	196,850
- Management Fees paid	-
+ Unrealized Appreciation	(12,191)
+ Realized Gain	(109,841)
- Incentive/Promote paid	(43,888)
= Ending Net Asset Value	\$ 3,560,414

Include accrued and separately charged fees and promote.

Did Client pay/receive interest due to additional closings? No

Fund Balance Sheet At Market Value	
Assets	
Gross Investments ⁽⁶⁾	\$ 190,712,286
- Investment-level Debt	44,183,643
= Net Investments	146,528,643
Mortgages Held ⁽⁶⁾	-
Cash	4,676,924
Other Assets ⁽⁶⁾	6,852,913
Total Assets	158,058,480
Liabilities	
Fund-level Debt	-
Other Liabilities ⁽⁶⁾	3,164,331
Total Liabilities	3,164,331
Net Assets	\$ 154,894,149

Include any and all long-term investment and fund level debt.

Fund Geographic Type Distribution	Based on Cost
Northeast	45.38%
Mideast	0.47%
East North Central	0.55%
West North Central	1.43%
Southeast	1.43%
Southwest	15.00%
Mountain	11.80%
Pacific	9.30%
Other (Foreign, Non-R/E)	14.64%
Other	0.00%
Total	100.00%

To two decimal places

Fund Life Cycle Distribution	Based on Cost
Pre-Development	0.00%
Development	0.00%
Operating	72.83%
Re-Development	0.00%
Leasing	0.00%
Other (Non- Real Estate)	27.17%
Other	0.00%
Total	100.00%

To two decimal places

Fund Property Type Distribution	Based on Cost
Office	69.20%
Industrial	5.48%
Apartment	4.20%
Retail	8.35%
Hotel	2.57%
Other (Land, Lodging, Non-R/E)	10.20%
Other	0.00%
Total	100.00%

To two decimal places

Significant Events/Discussion of Returns

(4) Includes accounts payable and accrued expenses (\$2.6M), minority interest (\$448K) and security deposits and escrow payable (\$72K).

(5) Includes accounts receivable (\$2.2M), restricted cash (\$2.0M), accrued interest receivable (\$1.7M) and other assets (\$1.0M).

(6) Amounts related to "Mortgages Held" have been included herein in order to present the applicable assets (i.e., marketable securities and loans and notes receivables) against the noted "Investment-Level Debt" line item.

We are required to confirm that all data is compliant with the Real Estate and Information Standards and was prepared in accordance to the attached specifications.

Please check this box to confirm compliance

Data was prepared by: Youlee Suh Date: March 30, 2004

Telephone: (703) 714-8164

JER Real Estate Qualified Partners, LP

Capital Account Analysis

Date	Contributions	Income	Return of Capital	Distribution of Income	Balance	Capital Commitment
						\$ 10,000,000.00
9/19/97	1,391,550.00				1,391,550.00	8,608,450.00
9/30/97					1,391,550.00	8,608,450.00
12/18/97	(49,260.00)				1,576,315.00	8,423,685.00
12/31/97		349,341.00		(85,901.00)	1,816,228.00	8,447,212.00
6/29/98	356,269.00				2,136,757.00	8,090,943.00
8/6/98				(33,927.00)	5,205,815.00	4,987,958.00
12/3/98	1,287,164.00				6,242,245.00	3,930,645.00
3/15/99	482,687.00				7,398,733.00	3,654,824.00
4/30/99			(783,209.00)	(294,147.00)	6,289,249.00	4,438,033.00
7/6/99				(36,286.00)	7,655,052.00	3,035,944.00
8/12/99	735,522.00				8,243,470.00	2,300,422.00
9/30/99			(160,895.00)		7,852,724.00	2,691,168.00
11/16/99	689,552.00			(21,509.00)	8,486,004.00	2,001,616.00
12/29/99		1,280,141.00		(10,319.00)	11,757,443.00	(1.00)
1/31/00			(250.00)	(18,445.00)	11,724,539.00	249.00
5/30/00				(116,079.00)	11,574,107.00	249.00
8/30/00				(39,211.00)	11,499,660.00	249.00
11/3/00				(22,671.00)	11,441,589.00	249.00
12/31/00		1,660,572.00			12,964,800.00	249.00
1/31/01			(1,478,874.00)	(203,146.00)	11,268,657.00	1,479,123.00
3/31/01		224,536.00			11,324,398.00	1,479,123.00
5/31/01			(1,538.86)	(185,471.40)	11,104,339.80	1,479,123.00
6/30/01		192,835.00			11,274,124.30	1,479,123.00
7/31/01			(177,153.43)	(143,109.82)	10,922,814.00	1,479,123.00
9/28/01			(143,886.57)	(68,771.34)	10,626,612.20	1,479,123.00
10/3/01				(29,571.09)	10,399,947.11	1,479,123.00
12/27/01			(1,838,805.97)		8,537,315.44	1,479,123.00
12/31/01					8,537,315.44	1,479,123.00

JER Real Estate Qualified Partners, LP

Capital Account Analysis

Date	Contributions	Income	Return of Capital	Distribution of Income	Balance	Capital Commitment
1/4/02				(5,342.62)	8,078,595.82	1,479,123.00
1/31/02			(402,238.81)		7,662,323.02	1,479,123.00
3/28/02			(528,656.72)		6,903,815.55	1,479,123.00
4/5/02				(18,010.58)	7,158,827.97	1,479,123.00
5/31/02			(85,044.78)		7,062,634.23	1,479,123.00
7/2/02				(18,043.56)	7,518,425.67	1,479,123.00
8/30/02			(804,477.61)		6,311,709.25	1,479,123.00
10/8/02				(14,195.81)	5,981,234.81	1,479,123.00
11/26/02			(68,955.22)		5,551,431.14	1,479,123.00
12/31/02				(8,353.18)	5,116,725.77	1,479,123.00
1/31/03			(68,955.22)		5,596,952.90	1,479,123.00
2/28/03			(736,181.88)	(215,615.85)	4,630,011.85	1,479,123.00
4/10/03				(6,851.80)	4,668,372.94	1,479,123.00
4/30/03				(114,925.37)	4,553,375.16	1,479,123.00
6/25/03			(137,910.45)		4,162,628.90	1,479,123.00
7/9/03				(5,981.98)	4,263,025.20	1,479,123.00
8/29/03			(19,989.78)	(41,533.32)	3,904,330.46	1,479,123.00
9/30/03			(26,602.93)	(105,765.12)	3,769,232.16	1,479,123.00
10/31/03				(66,052.25)	3,642,484.91	1,479,123.00
12/31/03		30,930.00		(451.73)	3,560,414.04	1,479,123.00
TOTALS	\$ 11,610,673.00	\$ 6,094,343.00	\$ (10,581,871.94)	\$ (3,562,730.02)		

Unpaid Capital Commitment Summary	
Initial Capital Commitment	\$ 10,000,000.00
Less: Contributions	(11,610,673.00)
Add back: Return of Capital	10,581,871.94
Less: Return of Capital after 1/31/01	(7,492,075.94)
Unpaid Capital Commitment	\$ 1,479,123.00

EXHIBIT G - Fair Basis Determination of Investments Policy Statement

Background

Financial statements of JER Real Estate Partners Fund I, Fund II and Europe Fund I are presented using fair value basis of accounting, as required by the limited partnership agreements of each of the funds. Accordingly, all assets and liabilities are either "marked up" or "marked down" as determined on a periodic basis with any resulting change in value being recorded as "unrealized gains" or "unrealized losses" in the income statement of the funds, respectively. The "unrealized gains" or "unrealized losses" are then recognized as net changes to the asset basis on the balance sheet.

Purpose of Policy Statement

The purpose of this policy statement is to outline the specific process and timing to be employed in determining any net changes in the fair value of all assets and liabilities of the funds.

Policy Statement

Fair Basis Determination of Assets:

In general, the fair value of assets shall be equal to the original cost plus additional capital contributions less return of capital distributions (i.e., the "current cost"). Distributions of net income or return on capital shall not affect fair value of assets. However, fair value of assets shall be subject to adjustment (as compared to its current cost) based on "material" changes in the potential value of the asset if sold to a third party in an orderly process and through an "arms-length" transaction (as outlined below).

To determine the potential net change in the fair value of assets, the following procedure/process shall apply:

1. **Marketable Securities:** Marketable securities include any investments for which a liquid public or private exchange market exists for the sale or purchase of such investment, including the regular periodic posting of market values on a per unit basis. Most commercial mortgage backed securities are considered marketable securities.

For marketable securities, fair basis shall be determined on a quarterly periodic basis based on the ending value (on the last business day of such applicable quarterly period) of other identical or similar marketable security quoted on a per unit basis on an applicable exchange or by a market maker less applicable fees, expenses and third party interests. The net change in value of investments shall be recorded as unrealized gains/losses.

2. **Real Estate Investments:** Real estate investments include any investments that are not marketable securities for which no liquid public or private market exchange exists for the sale or purchase of such investment.

Quarterly Assessment for Impairments: In general, each real estate investment shall be reviewed on a quarterly basis to determine the existence of a permanent and material impairment to its respective fair value (i.e., a “write-down” of an investment’s fair value below its current fair value) based on either (1) “External Assessments” (as defined below) or (2) “Management Assessments” (as defined below). If it is determined that a permanent and material impairment to fair value does exist, then a fair value adjustment shall be made at the end of such applicable quarterly period such that the resulting fair value shall be equal to the fair value as determined by such applicable assessment. If it is determined that a permanent and material impairment to fair value does not exist, then no fair value adjustment shall be made at the end of such quarterly period.

Annual Assessments for Fair Basis Determinations: In general, fair basis for all investments shall be determined on an annual basis at the end of each fiscal year period based on either (1) “External Assessments” (as defined below) or (2) “Management Assessments” (as defined below), provided, that if an applicable External Assessment exists with respect to an investment, the External Assessment of value shall apply.

- (a) External Assessments: External Assessments include “arms length” third party determinations of the fair value of an investment, including professional appraisals relating to an actual funding of debt, entering into a binding letter of intent or purchase/sale agreement for the sale of an investment, the actual sale of a partial interest in an investment and the partial sale of individual assets in a portfolio investment, provided, however, that if management believes that such External Assessment of fair basis is excessive and unreasonable, then management shall make a downward adjustment to such External Assessment of fair basis as deemed appropriate in the opinion of management. External Assessments do not include third party appraisals that are not related to actual funding of capital, non-binding letters of intent for the sale of an asset, local market conditions and trends, recent leasing activities or sales of comparable assets.

For External Assessments, fair basis of an investment shall be equal to the direct or implied value of such applicable investment as determined by the applicable third party on an arms-length basis less applicable fees, expenses and third party interests. The net change in value of investments due to External Assessments shall be recorded as unrealized gains/losses.

- (b) Management Assessments: Management Assessments are determinations of the fair value of investments (as if sold on the date of such assessment in an orderly manner) made in the best judgment of the general partner taking into consideration the financial condition of the investment, actual and projected operating results of investments, the nature of the asset, the local market conditions in which the asset exists, the liquidity of similar and comparable investments, recent leasing activity, recent sales activity and other factors and conditions deemed reasonable by the general partner.

For most real estate investments, the Management Assessments of fair value shall be determined using a discounted cash flow methodology. Projected net equity cash flows (beginning on the date of the applicable fair value period) as prepared by the general partner shall be discounted on a periodic basis using discount rates as determined by the general partner to be commensurate with the level of risk and return appropriate for the specific investment. The resulting present value of the projected net equity cash flows shall be the fair value of such investment.

For certain investments, different valuation methodologies may be employed at the reasonable discretion of management to take into consideration factors that are not properly taken into account through a discounted cash flow analysis, including comparable sales analysis and comparable cap rate valuation.

For Management Assessments, the fair basis of an investment shall be equal to the direct or implied value of such applicable investment as determined by the general partner pursuant to the methodology outlined herein less applicable fees, expenses and third party interests, provided that, such fair basis is appropriate and reasonable in the best judgment of management. The net change in value of investments due to Management Assessments shall be recorded as unrealized gains/losses.

Adjustments Due to Non-Cash Events

Under certain circumstances, the GAAP value of investments are increased or decreased due to particular "non-cash" items/events that management believes do not affect the fair basis of such investments. Examples include depreciation, amortization, "pick-up" of earnings on non-consolidated joint venture investments relating to "non-cash" items at the joint venture level, etc.

Where these types of adjustments to GAAP values exist due to "non-cash" items/events, "offsetting" adjustments shall be made to the income statement in an amount necessary to eliminate the net effect of such "non-cash" items/events. Although "offsetting" adjustments shall be recorded as unrealized gains/losses to the income statement, "offsetting" adjustments shall not be recognized as a "fair basis" adjustment since such adjustments were completed solely to offset "non-cash" items/events and not due to changes in the fair basis of such investments as determined herein.

Note: Derivative instruments (including foreign currency options, swaps, collars, etc. and interest rate caps, collars, swaps, etc.) are accounted for under FAS 133 that may impact realized gains/losses and unrealized gains/losses of the income statement of the funds. This policy statement does not apply to change in value of derivative investments.

EXHIBIT H - JER Fund III Completed Deals

745 South 23rd Street

On January 15, 2004, JER Fund III purchased 745 S. 23rd Street, an office building located in Crystal City, a major mixed use, office/retail/residential section of Arlington County, Virginia for a purchase price of \$3.19 million or \$215 per square foot.

JER sourced this opportunity through an off-market, established relationship that captured the opportunity prior to it being marketed. The investment is based on JER's focus on repositioning opportunities and builds on JER's expertise in the Washington DC metropolitan area. Through successful restructuring and renegotiating the current leases, JER positioned the asset for greater value creation at the time of closing.

The property is a 100% leased, Class B, multi-tenant office building comprised of 14,741 rentable square feet and 51 parking spaces. The property was constructed in 1983 and renovated and expanded in 2002. It is primarily leased to two boutique patent and trademark law firms, one under a five-year lease and the other under a one-year lease. There are two ground floor retail suites, one leased to a dentist and the other physically vacant but under lease to one of the law firm tenants. A potential recapture of these spaces provide potential upside in the income stream. New fire/life safety systems, roof and ADA compliance improvements make the asset desirable for continued leasing and suggest minimal structural improvements for the next few years.

The property is located in a commercial district within Crystal City, a 12.7 million square foot established office and residential district proximate to National Airport, the Pentagon, major retail and entertainment attractions and downtown Washington. The property is within walking distance to the Metro and other retail amenities, which will help ensure the assets long-term viability for both multi- and single-tenant uses. In addition, the property's physical design, including set backs, multiple balconies and abundant parking make conversion to residential uses attractive.

The combination of income, proximity to major employment and amenities, abundant parking and walking distance to the Metro afford the opportunity for value creation and appreciation. The major streetscape renovations and retail development taking place in Crystal City, as well as new residential development that have occurred demonstrate the continued attractiveness of this submarket.

JER anticipates holding the asset for three years and selling it to either a retail investor or an owner/occupier. This investment has a current cash yield of 8% and is projected to achieve an 18% IRR.

Titan IV IO Transaction

On January 22, 2004, JER Fund III purchased an interest-only ("IO") class of commercial mortgaged backed securities issued by a special purpose trust sponsored by Credit Suisse First Boston (CSFB) for \$12 million. JER sourced this opportunity based on its longstanding relationship with CSFB. JER has purchased similar IO positions in three prior Titan transactions.

The securities are entitled Commercial Mortgage Pass-Through Certificates, Series 2003-TFL2 ("Titan CMBS"). The sellers of the mortgages to the trust are Column Financial, an affiliate of CSFB, and Wachovia Bank.

The assets of the Trust related to the IO consist of eight commercial mortgage loans collectively collateralized by 24 properties. The total applicable pool has an initial aggregate outstanding principal balance of \$881,600,000. The maturity dates on the loans range from 1/9/05 to 9/9/06, however, each loan has either two or three, 12-month extension options.

The subject bond is interest-only ("IO") as it receives an interest strip against a notional balance. The interest strip is created due to the fact that the pass-through rate to the bondholders is less than the actual payment rates on the respective loans. This IO investment will be purchased on a "hold-to-maturity" assumption with an expected cash flow life of 36 months, although the majority of the cash flow will be received over the first 14 months.

This investment is projected to achieve an unleveraged IRR of 18%.

River East Portfolio

The River East Portfolio consists of two separate investments: (i) a mezzanine loan and (ii) three land parcels.

Mezzanine Loan

On January 22, 2004, JER Fund III purchased a \$12 million junior mezzanine loan on "Riverview II", a 159-unit condominium project currently under construction in downtown Chicago. The loan was purchased at par.

JER sourced this opportunity from a distressed, liquidating seller through a proprietary relationship. JER's focus on repositioning and redevelopment opportunities helped produce this non-performing loan investment. This note is part of a liquidating portfolio, which may also serve as a window into additional portfolio opportunities from the seller.

Currently 64% pre-sold, Riverview II is a 32-story, 661,535 square foot Class A building that overlooks the Chicago River, downtown Chicago, and Lake Michigan. The building consists of a 148-unit tower with 11 attached townhouses at the base, and includes a 266-car parking garage. The frame of the building was completed in December 2003, and substantial completion is expected to occur by December 2004. Gross sales to date on the 101 pre-sold units in Riverview II have totaled \$122 million, implying a sale price in excess of \$381 per square foot (psf) on the tower units and a sale price of \$398 psf on the 4 town homes sold.

The mezzanine loan accrues an attractive compound annual interest rate and matures on June 10, 2006. Initially issued in March 2003, the loan had accrued interest of approximately \$2.7 million at the time of acquisition. Purchase of the note also entitles the JER Fund III to the accrued interest to date.

The \$12.0 million junior mezzanine loan is subordinate to both a \$125.0 million senior construction loan held by Bank of America and a \$28.0 million senior mezzanine loan held by Fortress. Both loans mature on June 10, 2006. This investment is projected to achieve an unleveraged IRR in excess of 20%.

Land Parcels

Subsequently on March 1, 2004, JER Fund III acquired three land parcels in downtown Chicago for \$38.3 million. The parcels encompass 3.14 acres in land area and are located along Lake Shore Drive and adjacent to the Chicago River. The three land parcels, Parcels 18, 19, and 24, are already zoned for a total of 1.78 million FAR of primarily residential development. JER is considering multiple investment structures and exit strategies, including joint ventures on one or all parcels, development of the sites to promote third party equity and one-off land sales.

- Parcel 18, which overlooks the Chicago River, is currently zoned for 400,763 FAR, including 9,148 sf of retail space, 54,977 sf of commercial space, and a maximum of 243 dwelling units. The parcel is currently vacant.

- Parcel 19, which is located on the northern side of Parcel 18, is zoned for 626,835 FAR, including 14,308 sf of retail space, 85,991 sf of commercial space, and a maximum of 380 dwelling units. Similar to Parcel 18, Parcel 19 is currently vacant.
- Parcel 24, located one block north of Parcel 19, is zoned for 749,754 square feet of FAR, including 75,000 sf of retail space and a maximum of 500 dwelling units. The Planned Development governing the parcel also allows for up to 250 “non-accessory” parking spaces, which are publicly available parking spaces that are not specifically reserved for the use by facilities located on the parcel. This zoning has allowed the owner of Parcel 24 to operate a surface parking lot that generated over \$730,000 in net operating income in 2003.

JER was able to secure the purchase of the parcels at what it believes to be a discount to market price after demonstrating its ability to close on the \$12.0 million Riverview II junior mezzanine loan.

Hilton Ontario Airport Hotel

On March 5, 2004 JER Fund III purchased the Hilton Ontario Airport Hotel, a 309-room, full service hotel for \$30.4 million, or \$98,400 per key. The property, located in Ontario, California, east of the City of Los Angeles, is comprised of one ten-story tower and an adjacent two-story wing and has approximately 16,000 square feet of meeting space.

JER sourced this opportunity through an established relationship with a selling broker. The transaction was highly negotiated and JER successfully acquired the asset after the initial buyer defaulted on its contract. The asset is JER Fund III's first hospitality investment and represents an opportunity for value creation.

The asset is currently under managed and under marketed. The prior institutional owner, who acquired the hotel after a corporate merger, essentially neglected the asset, pursuing the path of least resistance. The previous hotel management focused its attention on aircrew personnel – reserving 100 rooms per night at a rate of \$40, compared to a transient rate of \$125 per night. Hilton ranked this hotel in the bottom 10% of their 150 full service hotels with regards to customer service and loyalty.

JER has partnered with Interstate Hotels & Resorts, the nation's largest independent hotel management company, to redevelop the asset and change the marketing mix. JER intends to implement a \$5 million renovation program (\$16,200 per key) within the first year of ownership to refresh the hotel's common areas and guest rooms, update the restaurant/bar theme, and address deferred maintenance issues. The renovations attract more transient business to the hotel and will consequently increase Average Daily Rates charged by the hotel. After completing the renovation, JER's all-in cost will be approximately \$115,000 per key, less than 70% of the calculated replacement cost of \$165,000 per key.

JER anticipates holding the asset for five years. The investment is projected to achieve a 2.0x equity multiple and an IRR in excess of 19%.

Titan V IO Transaction

On April 6, 2004, JER Fund III purchased an interest-only ("IO") class of commercial mortgaged backed securities issued by a special purpose trust sponsored by Credit Suisse First Boston (CSFB) for \$16.8 million. JER sourced this opportunity based on its longstanding relationship with CSFB. JER has purchased similar IO positions in four prior Titan transactions.

The securities are entitled Commercial Mortgage Pass-Through Certificates, Series 2004-TFL1 ("Titan CMBS"). The seller of the mortgages to the trust is Column Financial, an affiliate of CSFB.

The assets of the Trust related to the IO consist of eight commercial mortgage loans collectively collateralized by 12 properties. The total applicable pool has an initial aggregate outstanding principal balance of \$764,650,000. The maturity dates on the loans range from 10/9/05 to 12/9/06, however, each loan has either two or three, 12-month extension options.

The subject bond is interest-only ("IO") as it receives an interest strip against a notional balance. The interest strip is created due to the fact that the pass-through rate to the bondholders is less than the actual payment rates on the respective loans. This IO investment will be purchased on a "hold-to-maturity" assumption with an expected cash flow life of 42 months, although the majority of the cash flow will be received over the first 14 months.

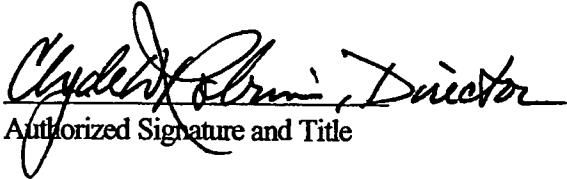
This investment is projected to achieve an unleveraged IRR of 21.5%.

cc: Mike Bartletti
Director of Real Estate
Teachers' Retirement System of the State of Illinois

The undersigned hereby attests that the information provided herein is true and accurate. The undersigned also acknowledges that he/she is aware that pursuant to the Illinois Pension Code, 40 ILCS 5/16-198 that "any person who knowingly makes a false statement or falsifies or permits to be falsified any record of this Retirement System in any attempt to defraud such System as a result of such act, or intentionally or knowingly defrauds this Retirement System in any manner is guilty of a Class A misdemeanor."

JER PARTNERS

Prospective Manager Name


Authorized Signature and Title

Please return one copy of the questionnaire to Teachers' Retirement System of the State of Illinois:

One Copy:

Mike Bartletti
Director of Real Estate
Teachers' Retirement System
of the State of Illinois
2815 West Washington
Springfield, IL 62704

THIS GUARANTEE (the "Guarantee") dated as of October 17, 2003, is executed by each of the undersigned (collectively, the "Guarantors"), for the benefit of JER Real Estate Qualified Partners III L.P., a Delaware limited partnership (the "Partnership"), and its limited partners (the "Limited Partners"), to guarantee certain hereinafter defined obligations of JER Real Estate Advisors III, L.P. (the "General Partner") as general partner under the Amended and Restated Limited Partnership Agreement dated as of the date hereof (the "Partnership Agreement") of the Partnership. Capitalized terms used herein but not otherwise defined herein shall have the meanings set forth in the Partnership Agreement.

Preliminary Statement

As of the date hereof, the partners of JER Real Estate Advisors III, L.P., a Delaware limited partnership, which is the general partner of the Partnership, consist of each Guarantor, a member of such Guarantor's family or a corporation, trust, partnership or other entity formed by such Guarantor for investment by or for the benefit of such Guarantor's family members or charitable organizations (any such family member, corporation, trust, partnership or other entity, a "Related Party" with respect to such Guarantor). As an inducement to the Limited Partners to join the Partnership and make the Capital Commitments, the Guarantors have agreed to enter into this Guarantee. The Guarantors acknowledge that they will benefit from the Limited Partners' participation in the Partnership. The Guarantors are incurring obligations hereunder concurrently with the incurrence by the General Partner of its obligations under the Partnership Agreement.

In consideration of the above and as an inducement to the Limited Partners to join the Partnership and make the Capital Commitments, the Guarantors agree as follows:

1. *Guarantees of Clawback Amount; Related Definitions.* (a) Each of the Guarantors unconditionally and irrevocably, on a several but not joint basis, guarantees to the Partnership and each of the Limited Partners the payment in cash and performance when due of the General Partner's obligations to the Partnership as set forth in Section 10.1(b) of the Partnership Agreement (the "Clawback Obligation") solely to the extent of the amount of such Guarantor's Pro Rata Share (as hereinafter defined) of the Clawback Obligation, and to the extent that for any reason the General Partner shall fail fully and punctually to pay and perform the Clawback Obligation, each of the Guarantors shall pay to the Partnership such amount (net of any prior fundings to the General Partner from such Guarantor to pay such amount). The aggregate amount of the Guarantors' Pro Rata Shares of the Clawback Obligation shall equal the Clawback Obligation.

(b) In the event that a Guarantor transfers all or any part of its interest in the General Partner to another individual or entity, such transferor Guarantor shall remain liable for the performance by the transferee of its obligations hereunder.

(c) (i) This Guarantee is an absolute, unconditional, continuing guarantee of payment and performance and not of collectability, and is in no way conditioned or contingent upon any attempt to collect from the General Partner, enforce performance by the General Partner or on any other condition or contingency. The obligations and agreements of the Guarantors under this Section 1 shall be performed and observed without requiring any notice of

acceptance hereof, non-payment, non-performance or non-observance by the General Partner or any proof thereof or demand therefor, all of which Guarantors expressly waive to the fullest extent they are legally permitted to do so.

(ii) Except for the defense of payment, to the maximum extent permitted by applicable law, each Guarantor hereby waives and agrees not to assert or take advantage of any rights or defenses based on any rights or defenses of the General Partner to the Clawback Obligation including, without limitation, any failure of consideration, any statute of limitations, any insolvency or bankruptcy of the General Partner or any other defense, offset or counterclaim to any liability hereunder. No invalidity, irregularity, or unenforceability of all or any part of the Clawback Obligation shall affect, impair, or be a defense to this Guarantee, nor, except as set forth above, shall any other circumstance which might otherwise constitute a defense available to, or legal or equitable discharge of, the General Partner in respect of any of the Clawback Obligation affect, impair, or be a defense to this Guarantee.

(iii) To the maximum extent permitted by applicable law, one or more successive or concurrent actions may be brought hereon against the Guarantor, either in the same action in which any obligor is sued or in separate actions. If any claim or action, or action on any judgment, based on this Guarantee is brought against the Guarantor, the Guarantor agrees, except as set forth above, not to deduct, set off or seek to counterclaim for or recoup any amounts which are or may be owed to the Guarantor by the Partnership or the General Partner.

(iv) To the maximum extent permitted by applicable law, the obligations of the Guarantor under this Guarantee shall not be affected by (i) any merger or consolidation of the Partnership or the General Partner or any Affiliate of any such entity, (ii) any change in the direct or indirect ownership of the Guarantor or any other Person in the General Partner or any of its Affiliates, (iii) the effect of any non-U.S. or domestic laws, rules, regulations, or actions of a court or governmental body other than actions taken specifically in respect of the Clawback Obligation or this Guarantee, (iv) any amendment or waiver of or any consent to departure from the Partnership Agreement including, without limitation, any increase in the Clawback Obligation, except for changes, amendments, waivers, or consent effected in accordance with the Partnership Agreement, (v) any failure by the Partnership, the General Partner or any Affiliate of any such entity to mitigate its damages with respect to the Clawback Obligation, or (vi) except as set forth above, any other condition, event or circumstance which might otherwise constitute a legal or equitable discharge, release, or defense of a surety or guarantor, or which might otherwise limit recourse against the Guarantor, it being understood that the Guarantee shall not be discharged except by the full payment and performance of the Clawback Obligation.

(v) Each Limited Partner is a beneficiary of this Guarantee with the right to enforce it to the extent provided herein. The failure (by waiver, delay, consent, or otherwise) of any Limited Partner to assert any claim or demand or to enforce any remedy under this Guarantee will not in any manner vary or reduce the obligations of the Guarantor hereunder, except as provided in the following sentence. The Partnership Agreement may be amended, modified, or supplemented in accordance with its terms without notice to, consent of, or agreement by the Guarantor.

(d) For the avoidance of doubt, none of the Guarantors shall have any obligation to pay the amounts owed under this Guarantee by any other Guarantor.

(e) (i) A Guarantor's "*Pro Rata Share*" of the Clawback Obligation shall equal (A) the product of (I) the Carried Interest Giveback Percentage (as defined below) of such Guarantor and his or her Related Parties and (II) the amount of such Clawback Obligation, *minus* (B) the interest of such Guarantor and his or her Related Parties in the total amounts paid out of the Escrow Account or otherwise paid by the General Partner on behalf of such Guarantor and his or her Related Parties in satisfaction of such Clawback Obligation.

(ii) The "*Carried Interest Giveback Percentage*" of a Guarantor and his or her Related Parties shall mean the percentage determined by dividing (a) the Personal After-Tax Amount of such Guarantor and his or her Related Parties by (b) the After-Tax Amount (as defined in the Partnership Agreement) of the aggregate distributions of Carried Interest to the General Partner.

(iii) The "*Personal After-Tax Amount*" of a Guarantor and his or her Related Parties shall mean an amount equal to (a) the amount of any Carried Interest actually distributed or deemed distributed to such Guarantor and his or her Related Parties (including amounts placed in the Escrow Account and amounts distributed to the General Partner and allocated but not distributed to such Guarantor and his or her Related Parties, in each case after giving effect to any forfeiture of such amounts in the Escrow Account and the reallocation of such forfeited amounts to other partners of the General Partner), minus (b) the Personal Income Tax Amount of such Guarantor and his or her Related Parties with respect to such Carried Interest.

(iv) The "*Personal Income Tax Amount*" of a Guarantor and his or her Related Parties, with respect to Carried Interest distributed or deemed distributed to a Guarantor and his or her Related Parties (including amounts credited to such Guarantor and his or her Related Parties in the Escrow Account), giving effect to any forfeiture of such amounts and the reallocation thereof, shall mean the amount of income tax imposed on (i) allocations of taxable income related to such Carried Interest or (ii) distributions of Carried Interest to such Guarantor and his or her Related Parties (including amounts placed in the Escrow Account and amounts of Carried Interest distributed to the General Partner and allocated but not distributed to such Guarantor and his or her Related Parties), giving effect to any forfeiture of such amounts in the Escrow Account and the reallocation of such amounts with such income tax (A) calculated by assuming that (I) the tax rate imposed is the Assumed Income Tax Rate in effect in the Fiscal Year of any such allocation and (II) capital losses from the Disposition of an Investment allocated to such Guarantor and his or her Related Parties relating to the Carried Interest ("*Capital Losses*") shall reduce capital gains from the Disposition of an Investment allocated to such Guarantor and his or her Related Parties relating to the Carried Interest ("*Capital Gains*") only to the extent of the amount of Capital Gains recognized in the Fiscal Year of the recognition of a Capital Loss or a subsequent Fiscal Year (only to the extent that Capital Losses may properly offset such Capital Gain) and (B) reduced by the amount of any tax benefit (I) actually realized by such Guarantor and his or her Related Parties (or, if such Partner or any Related Party is treated as a partnership for federal income tax purposes, its direct or indirect owners) in the year in which a payment is required to be made directly or indirectly by or on behalf of such Guarantor and his or her Related Parties of any final Clawback Amount as a result solely of

making such payment or (II) deemed to be realized by such Guarantor and his or her Related Parties (or, if such Partner or any Related Party is treated as a partnership for federal income tax purposes, its direct or indirect owners) as a result of the forfeiture of such Guarantor's interest in the Escrow Account (such forfeiture being deemed to produce the maximum tax benefit), as calculated by the Partnership's accountants, which tax benefit is attributable solely to the making of such payment or forfeiture and which benefit shall be determined after first taking all other items of income, gain, loss, deduction or credit (relating to the Partnership only) of such Guarantor and his or her Related Parties or any Related Party into account.

(v) If a Guarantor or one of his or her Related Parties owns an interest in the General Partner through a wholly owned subsidiary or other entity, such interest shall be treated as if owned directly by such Guarantor for purposes of this Guarantee. If any partner of the General Partner is not a Guarantor or a Related Party of a Guarantor, the interest of such partner in the General Partner shall be treated as if owned pro rata by each Guarantor for purposes of this Agreement.

2. *Representations and Warranties.* Each Guarantor represents and warrants to the Partnership and to each Limited Partner that this guarantee has been duly executed and delivered by such Guarantor and constitutes the legal, valid and binding obligation of such Guarantor enforceable against such Guarantor in accordance with its terms (subject to the effects of applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing).

3. *Collection Expenses.* If the Partnership or any Limited Partner is required to pursue any remedy against a Guarantor hereunder, such Guarantor shall pay to the Partnership or such Limited Partner, upon demand, all reasonable attorney's fees and expenses and all other costs and expenses incurred by such party in enforcing this Guarantee against such Guarantor, subject to presentation of such evidence of incurrence of such expenses as such Guarantor may reasonably request.

4. *Successions or Assignments.* This Guarantee shall inure to the benefit of the successors or assigns of the Partnership and the Limited Partners who shall have, to the extent of their interest, the rights of the Partnership and the Limited Partners hereunder. This Guarantee is binding upon the Guarantors and their successors and permitted assigns. The Guarantors are not entitled to assign their obligations hereunder to any other Person without the written consent of a Majority in Interest of the Limited Partners, and any purported assignment in violation of this provision shall be void.

5. *Notices.* All notices and other communications provided for herein shall be in writing and shall be deemed to have been duly given if delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid, to the party to whom it is directed:

(a) If to the Guarantors:

c/o JER Real Estate Qualified Partners III, L.P.
1650 Tysons Boulevard, Suite 1600
McLean, Virginia 22102

or at such other address as a Guarantor shall have specified by notice in writing to the Partnership and the Limited Partners.

(b) If to the Partnership:

JER Real Estate Qualified Partners III, L.P.
1650 Tysons Boulevard, Suite 1600
McLean, Virginia 22102

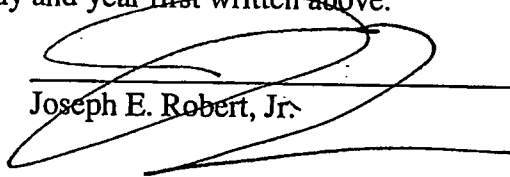
(c) If to a Limited Partner, to such address as shall be set forth as the address of such Limited Partner in the books and records of the Partnership.

6. *Miscellaneous.* (a) This Guarantee may not be amended, modified, released or discharged with respect to any Guarantor except with the written consent of limited partners representing 80%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds and such Guarantor.

(b) This Guarantee and the rights and obligations each of the Guarantors, the Partnership and the Limited Partners shall be governed by and construed in accordance with the laws of the State of New York.

(c) This Guarantee may be enforced by any Limited Partner as a third-party beneficiary of this Guarantee and the obligations of each of the Guarantors hereunder.

IN WITNESS WHEREOF, each of the Guarantors have caused this Guarantee to be duly executed and delivered as of the day and year first written above.



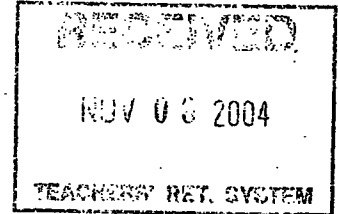
Joseph E. Robert, Jr.

TAX-EXEMPT PARTNERSHIP¹

JER Real Estate Qualified Partners III, L.P.

Amended and Restated
Limited Partnership Agreement

Dated as of October 17, 2003



THE LIMITED PARTNERSHIP INTERESTS (THE "INTERESTS") OF JER REAL ESTATE QUALIFIED PARTNERS III, L.P. (THE "PARTNERSHIP") HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), THE SECURITIES LAWS OF ANY STATE OR ANY OTHER APPLICABLE SECURITIES LAWS IN RELIANCE UPON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH LAWS. SUCH INTERESTS MUST BE ACQUIRED FOR INVESTMENT ONLY AND MAY NOT BE OFFERED FOR SALE, PLEDGED, HYPOTHECATED, SOLD, ASSIGNED OR TRANSFERRED AT ANY TIME EXCEPT IN COMPLIANCE WITH (I) THE SECURITIES ACT, ANY APPLICABLE STATE SECURITIES LAWS, AND ANY OTHER APPLICABLE SECURITIES LAWS; AND (II) THE TERMS AND CONDITIONS OF THIS AGREEMENT. THE INTERESTS MAY NOT BE TRANSFERRED OF RECORD EXCEPT IN COMPLIANCE WITH SUCH LAWS AND THIS AGREEMENT. THEREFORE, PURCHASERS OF SUCH INTERESTS WILL BE REQUIRED TO BEAR THE RISK OF THEIR INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

-
1. Investment partnership for tax-exempt investors which are "qualified organizations" (e.g., certain pension plans and educational institutions) for purposes of Section 514(c)(9) of the Code. There will also be a separate limited partnership for U.S. taxable investors and tax-exempt investors which are not qualified organizations (or which are qualified organizations but prefer not to be subject to this Agreement) and, potentially, another structure for non-U.S. investors.

065654-0056-02143-NY02.2249919.17

10/20/03 4:15 PM

TABLE OF CONTENTS

	Page
ARTICLE I Definitions	1
ARTICLE II General Provisions	17
2.1 Formation	17
2.2 Name	17
2.3 Organizational Certificates and Other Filings; Limitations on Conduct of Business	17
2.4 Purpose	17
2.5 Principal Office	17
2.6 Registered Office and Registered Agent	17
2.7 Term	17
2.8 Size	18
2.9 Fiscal Year	18
2.10 Withdrawal of Initial Limited Partner	18
2.11 Alternative Investment Structure	18
2.12 Parallel Investment Entities	20
2.13 Co-Investment Funds	21
2.14 Mexican Fund	21
2.15 Feeder Fund	21
ARTICLE III Capital Contributions and Direct Payments; Distributions	22
3.1 Capital Contributions and Direct Payments	22
3.2 Excuse, Exclusion and Cancellation	28
3.3 Subsequent Closings	33
3.4 Distributions – General Principles	35
3.5 Amounts and Priority of Distributions	37
3.6 Escrow Account	39
ARTICLE IV The General Partner	41
4.1 Investment Guidelines	41
4.2 Powers of the General Partner	41
4.3 Limitation on Liability	44
4.4 Indemnification	44
4.5 General Partner as Limited Partner	46
4.6 Other Activities	46
4.7 Valuation	49
4.8 ERISA Covenants	49
4.9 Prohibited Actions	50
4.10 Miscellaneous Covenants	50
ARTICLE V The Limited Partners	51

5.1	Management.....	51
5.2	Liabilities of the Limited Partners	52
5.3	Limited Partners' Outside Activities	52
5.4	Investor Advisory Committee.....	53
ARTICLE VI Expenses and Fees		55
6.1	General Partner Expenses	55
6.2	Management Fee.....	56
6.3	Partnership Expenses	57
ARTICLE VII Books and Records and Reports to Partners.....		59
7.1	Books and Records	59
7.2	Federal, State, Local and Non-U.S. Income Tax Information	60
7.3	Reports to Partners.....	60
7.4	Partnership Meetings; Actions by Written Consent.....	61
ARTICLE VIII Transfers, Withdrawals and Default		62
8.1	Transfer and Withdrawal of the General Partner	62
8.2	Assignments/Substitutions or Withdrawals by Limited Partners	65
8.3	Defaulting Limited Partner	66
8.4	Further Actions	68
8.5	Admissions and Withdrawals Generally.....	68
8.6	Required/Elective Withdrawals	68
8.7	Plan Assets Matters.....	69
ARTICLE IX Term and Dissolution of the Partnership.....		71
9.1	Term 71	
9.2	Winding-up	71
9.3	Final Distribution	72
9.4	Guarantee of Clawback Performance	72
ARTICLE X Capital Accounts and Allocations of Profits and Losses		73
10.1	Capital Accounts.....	73
10.2	Allocations of Profits and Losses	73
10.3	Special Allocation Provisions	75
10.4	Tax Allocations.....	76
10.5	Other Allocation Provisions.....	76
10.6	Tax Advances.....	77
ARTICLE XI Miscellaneous		77
11.1	Waiver of Partition and Accounting	77
11.2	Confidentiality	77

11.3	Power of Attorney.....	78
11.4	Amendments	80
11.5	Entire Agreement.....	81
11.6	Severability	81
11.7	Notices	81
11.8	Governing Law	81
11.9	Successors and Assigns.....	81
11.10	Partnership Tax Treatment.....	82
11.11	Counterparts.....	82
11.12	Interpretation.....	82
11.13	Headings	82
11.14	Delivery of Certificate of Limited Partnership, etc	82

Annex A – Investment Guidelines

Annex B – Form of Guarantee

This AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT (this "Agreement") of JER Real Estate Qualified Partners III, L.P., a Delaware limited partnership (the "Partnership"), is made as of this 17th day of October, 2003, by and among JER Real Estate Advisors III, L.P., a Delaware limited partnership, as general partner (the "General Partner"), Rachael Clarke, as initial limited partner (the "Initial Limited Partner"), and the limited partners of the Partnership.

WITNESSETH:

WHEREAS, the Partnership was formed pursuant to a Certificate of Limited Partnership, dated as of May 8, 2003, which was executed by the General Partner and filed for recordation in the office of the Secretary of State of the State of Delaware on May 8, 2003 and a Limited Partnership Agreement dated as of May 8, 2003 between the General Partner and the Initial Limited Partner; and

WHEREAS, the parties hereto desire to enter into this Amended and Restated Limited Partnership Agreement of the Partnership to permit the withdrawal of the Initial Limited Partner and the admission as limited partners of the Partnership of parties as limited partners of the Partnership and further to make the modifications hereinafter set forth;

NOW, therefore, in consideration of the mutual promises and agreements herein made and intending to be legally bound hereby, the parties hereto agree to amend and restate the Limited Partnership Agreement of the Partnership in its entirety to read as follows:

ARTICLE I

Definitions

As used herein, the following terms shall have the following meanings:

1940 Act: The Investment Company Act of 1940, as amended, as the same may be further amended from time to time.

Act: The Delaware Revised Uniform Limited Partnership Act, 6 Del. Code § 17-101 *et seq.*, as the same may be further amended from time to time.

Additional Amount: Means, with respect to any payment to be made by a Limited Partner, such payment times an annual rate of 10% for the specified time period.

Adjusted Capital Account Balance: With respect to any Partner, the balance in such Partner's Capital Account adjusted (i) by taking into account the adjustments, allocations and distributions described in U.S. Treasury Regulations Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6); and (ii) by adding to such balance such Partner's share of Partnership Minimum Gain and Partner Nonrecourse Debt Minimum Gain, determined pursuant to Regulations Sections 1.704-2(g) and 1.704-2(i)(5) and any amounts such Partner is obligated to restore pursuant to any provision of this Agreement. The foregoing definition of Adjusted Capital Account Balance is intended to comply with the provisions of Regulations Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

Adjusted Cost: Means (x) in the case of an Unrealized Investment that has not been the subject of a writedown before that date, the total Capital Contributions of all Partners relating thereto, and (y) in the case of an Unrealized Investment that has been the subject of one or more writedowns before that date, its Fair Market Value as of the date of the most recent writedown.

Affiliate: With respect to any Person, means (i) any Person directly or indirectly controlling, controlled by or under common control with the specified Person and (ii) in the case of the General Partner the term Affiliate shall also include each individual named in the definition of Change of Management as well as any Person in which any one or more of such individuals, their respective spouses, or their respective minor children (individually or collectively) beneficially own, directly or indirectly, more than 10% of the common equity securities determined on a fully-diluted basis of such Person; *provided, however*, that neither the Partnership, any Predecessor Fund, JER CMBS Fund, Mexican Fund, any Co-Investment Fund, any Investment, any investment of any Predecessor Fund, JER CMBS Fund, Mexican Fund or any Co-Investment Fund, or any Limited Partner, nor any Person controlled by the Partnership, any Predecessor Fund, JER CMBS Fund, Mexican Fund, any Co-Investment Fund, any Investment, any investment of any Predecessor Fund, JER CMBS Fund, Mexican Fund or any Co-Investment Fund, or any Limited Partner shall be an Affiliate of the General Partner for purposes of this Agreement. As used in this definition of Affiliate, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract, or otherwise.

After-Tax Amount: With respect to any Partner, an amount equal to: (a) the amount of any Carried Interest distributed to the General Partner with respect to a Limited Partner (including amounts placed in the Escrow Account) minus (b) the Income Tax Amount with respect to such Carried Interest.

Agreement: This Amended and Restated Limited Partnership Agreement, including annexes hereto, as the same may be amended, modified or supplemented from time to time.

Appraised Value With Carry: With respect to (i) the redemption of the Interest of any Limited Partner pursuant to Section 8.6 and (ii) a removal of the General Partner without cause pursuant to Section 8.1(b)(ii) or following a Change in Management pursuant to Section 8.1(d), a price equal to the value of such Interest, inclusive (except in the case of an Excepted JER Investor) of the effect of any potential Carried Interest payments to the General Partner, determined on the assumption that the Investments were sold for their Fair Market Values and the proceeds therefrom were distributed to the Partners in accordance with this Agreement after credit or debit, as the case may be, for the amount of the Partnership's other assets and liabilities determined in accordance with generally accepted accounting principles in the United States.

Appraised Value Without Carry: With respect to (i) the purchase of the General Partner's Interest in the Partnership upon the occurrence of a Disabling Event and (ii) a removal of the General Partner for Cause pursuant to Section 8.1(b)(i), a price equal to the value of the General Partner's Interest in the Partnership (exclusive of any potential Carried Interest

payments to the General Partner) based upon the General Partner's pro rata share (based upon Capital Contributions for Investments) of the Fair Market Value of the Investments and the amount of the Partnership's other assets and liabilities determined in accordance with generally accepted accounting principles in the United States.

Assignee: As defined in Section 8.2(a).

Assumed Income Tax Rate: The highest effective marginal combined Federal, state and local income tax rate for a Fiscal Year prescribed for an individual or corporation resident in New York City (taking into account (a) the deductibility of state and local income taxes for Federal income tax purposes, assuming the limitation described in Section 68(a)(2) of the Code applies, and (b) the character (e.g., long-term or short term capital gain or ordinary or exempt) of the applicable income).

Bankruptcy: With respect to any Person, any (i) assignment by such Person for the benefit of creditors, (ii) application by such Person for the appointment of a trustee, liquidator, receiver or custodian of any substantial part of such Person's assets, (iii) filing of a petition or commencement of a proceeding by such Person relating to itself under any bankruptcy, reorganization, arrangement or similar law, (iv) filing of a petition or commencement of a proceeding under any bankruptcy, reorganization, arrangement or similar law against such Person where either (a) such Person has effectively given its consent or (b) such proceeding has continued undischarged and unstayed for a period of 60 days.

Benefit Plan Partner: Any Limited Partner that is an "employee benefit plan" within the meaning of Section 3(3) of ERISA (whether or not subject to ERISA), a "plan" within the meaning of Section 4975(e)(1) of the Code or a "benefit plan investor" within the meaning of the Plan Asset Regulations.

BHC Partner: As defined in Section 5.1(b).

Broken Deal Expenses: All out-of-pocket costs and expenses, if any, incurred by or on behalf of the Partnership and any Parallel Fund, or any vehicle formed pursuant to Section 2.11, in developing, diligencing, negotiating and structuring prospective or potential Investments which are not ultimately made, including any legal, accounting, diligencing, advisory, financing and consulting costs and expenses in connection therewith.

Business Day: A day which is not a Saturday, Sunday or other day on which banks are authorized or required by law to be closed in McLean, Virginia.

Capital Account: As defined in Section 10.1.

Capital Available for Covered Region Investment: As of any date (a) in the case of the Partnership and the Parallel Funds, an amount equal to 25% of the Partnership's Capital Commitments or the Parallel Fund's Parallel Fund Capital Commitments, as the case may be, and (b) in the case of a Co-Investment Fund, the capital commitments of such Co-Investment Fund at such time; provided that the Capital Available for Covered Region Investment of the Partnership, a Parallel Fund or a Co-Investment Fund with respect to any investment shall equal

zero to the extent that any such fund has exhausted its unused capital commitments which may be invested in such investment.

Capital Commitment: As to any Partner, the amount set forth in the Limited Partner's Subscription Agreement as its Capital Commitment, as such amount may be increased from time hereto.

Capital Contribution: As to any Partner at any time, the aggregate amount of capital actually contributed to the Partnership by such Partner pursuant to Section 3.1(a) on or prior to such time, and, where the context requires, by such Partner to any alternative investment vehicle formed pursuant to Section 2.11.

Carried Interest: All amounts distributed to the General Partner pursuant to Sections 3.5(a)(iv) and 3.5(a)(v).

Carrying Value: With respect to any Partnership asset, the asset's adjusted basis for Federal income tax purposes, except that the Carrying Values of all Partnership assets shall be adjusted to equal their respective fair market values (as determined by the General Partner), in accordance with the rules set forth in U.S. Treasury Regulations Section 1.704-1(b)(2)(iv)(f), except as otherwise provided herein, immediately prior to: (a) the date of the acquisition of any additional Partnership Interest by any new or existing Partner in exchange for a Capital Contribution; or (b) the date of the distribution of Partnership property to a Partner; *provided that* adjustments pursuant to clauses (a) and (b) above shall be made only if the General Partner reasonably determines that such adjustments are necessary or appropriate to reflect the relative economic interests of the Partners. The Carrying Value of any Partnership asset distributed to any Partner shall be adjusted immediately prior to such distribution to equal its Fair Market Value. The Carrying Value of any asset contributed by a Partner to the Partnership shall be the Fair Market Value of the asset at the date of its contribution. In the case of any asset that has a Carrying Value that differs from its adjusted tax basis, Carrying Value shall be adjusted by the amount of depreciation calculated for purposes of the definition of "Profits and Losses" rather than the amount of depreciation determined for U.S. federal income tax purposes, and depreciation shall be calculated by reference to Carrying Value rather than tax basis once Carrying Value differs from tax basis.

Cause: Means (i) that the General Partner or any Partner of the General Partner has committed gross negligence, reckless misconduct, a breach of its duties under this Agreement or fiduciary duties under applicable law or of any representation or warranty made in this Agreement or the Subscription Agreements, or a violation of applicable securities laws (including a consent to a permanent injunction prohibiting future violations of any provision of the federal securities laws), in each case which has a material adverse effect on the business of the Partnership or the ability of the General Partner to perform its duties under this Agreement or (ii) fraud, bad faith, willful misconduct by the General Partner or any partner thereof in connection with the performance of its duties under the terms of this Agreement or otherwise owed to the Partnership or Limited Partners or (iii) the criminal conviction of, or admission by consent or plea of no contest to, any felony by the General Partner or any partner thereof or (iv) the Bankruptcy or Insolvency of Joseph E. Robert, Jr.

Certificate of Limited Partnership: The Certificate of Limited Partnership of the Partnership, dated as of May 8, 2003 which was executed by the General Partner and filed in the office of the Secretary of State of the State of Delaware on May 8, 2003 and all subsequent amendments thereto and restatements thereof.

Change in Management: Any event (including death or disability) which results in either (i) both Joseph E. Robert, Jr. and Deborah L. Harmon, becoming Departed Executives or (ii) Joseph E. Robert, Jr. ceasing to own or control, directly or indirectly, a majority of the voting securities of the entity which is the sole general partner of the General Partner.

Clawback Amount: As defined in Section 10.2(c)(i).

Closings: The Initial Closing and Subsequent Closings of Capital Commitments to the Partnership occurring on, respectively, the Initial Closing and Subsequent Closings.

CMBS: Means commercial mortgaged backed securities.

Code: The Internal Revenue Code of 1986, as the same may be amended from time to time.

Co-Investment Fund: As defined in Section 2.13.

Commitment Period: The period from the Initial Closing through the earlier of (a) the Expiration Date and (b) the date on which the obligation of Limited Partners to make Capital Contributions for Investments is cancelled pursuant to Section 3.2(e); *provided* that, for purposes of Section 4.6 (a), (c) and (e), during any period in which the obligation of the Limited Partners to make Capital Contributions has been suspended pursuant to any provision of this Agreement, the Commitment Period shall be deemed to have terminated.

Conduit Securitization: Means CMBS collateralized primarily by newly originated loans (i) issued for the purpose of securitizations, (ii) with fixed interest rates and maturities of 7 to 10 years and (iii) with loan to value ratios generally averaging approximately 75% and debt service coverage ratios generally averaging 1.25% based on net cash flow from the underlying real estate, all as reasonably determined by the General Partner acting in good faith.

Covered Region: A geographic/geopolitical region outside the U.S. and Canada (such as Europe or Asia), with respect to which the General Partner or an Affiliate thereof has formed a Co-Investment Fund.

Covered Region Investment: An Investment in a Non-US/Canadian Entity whose assets are located primarily in a Covered Region.

Cumulative Net Distributions: As defined in Section 10.2(c)(iii).

Current Proceeds: Proceeds from an Investment other than Disposition Proceeds, net of Partnership Expenses and reserves therefor which are allocated to such proceeds in accordance with Section 6.3(d) and (e).

Defaulting Limited Partner: As defined in Section 8.3(b).

Departed Executive: With respect to any individual means the failure of such individual for any reason (including death or disability) to be actively involved in the affairs of the Partnership on the basis contemplated by Section 4.6(e).

Designated Fees: Excess Fees and Other Fees which are acquisition, disposition, break-up, transaction origination, set-up, director, investment banking or other transaction fees earned by JER and its Affiliates from or in connection with Investments or Portfolio Companies (including any non-cash consideration received in connection with the foregoing, valued at the earlier of cash out or the termination of the Partnership); *provided* that, neither fees borne by a third party pursuant to the third sentence of Section 6.3(c) nor the portion of the fees earned pursuant to Section 5.3(b)(ii) which are not Excess Fees shall be Designated Fees.

Direct Payments: As defined in Section 3.1(b).

Disabling Event: The Bankruptcy or Insolvency of the General Partner or the General Partner ceasing to be the general partner of the Partnership pursuant to Section 17-402 of the Act other than (a) as permitted by Section 8.1(a), or (b) pursuant to a removal and replacement of the General Partner as provided in Section 8.1(b) or (d).

Disposition: The sale, exchange, redemption, repayment, repurchase or other disposition by the Partnership of all or any portion of an Investment for cash (other than pursuant to Section 3.3(f)) and shall include the receipt by the Partnership of a liquidating dividend or other like distribution for cash on such Investment or any portion thereof and shall also include the distribution in kind to the Partners of all or any portion of an Investment as permitted hereby. The General Partner shall determine in good faith whether and to what extent a Disposition has occurred as a result of the refinancing of an Investment. A Disposition shall be deemed to include an Investment becoming worthless within the meaning of § 165(g) of the Code.

Disposition Proceeds: All amounts received by the Partnership upon the Disposition of an Investment, net of Partnership Expenses and reserves for Partnership Expenses which are allocated thereto in accordance with Section 6.3(d) and (e).

Dissolution Sale: All sales and liquidations by or on behalf of the Partnership of its assets in connection with or in contemplation of the winding-up of the Partnership.

ERISA: The Employee Retirement Income Security Act of 1974, as amended.

ERISA Partner: Any Limited Partner that is a Benefit Plan Partner that is subject to Title I of ERISA or Section 4975 of the Code.

Escrow Account: As defined in Section 3.6(a).

Event of Dissolution: As defined in Section 9.1.

Excepted JER Investors: Limited Partners who are (i) employees of the General Partner or any of its Affiliates, (ii) entities beneficially owned solely by any one or a group of

them, (iii) employee benefit plans, family and charitable foundations or family investment vehicles for either of the foregoing, (iv) friends of Joseph E. Robert, Jr. and (v) Feeder Funds, *provided* that the aggregate Capital Commitments and Parallel Fund Capital Commitments of the investors described in (i)-(iv) above may not exceed \$10,000,000.

Excess Fees: As defined in Section 5.3(b)(ii).

Excess 20% Amount: As defined in Section 10.2(c)(i).

Excuse Notice: A written notice delivered by a Limited Partner to the General Partner that such Limited Partner is excused from making an Investment pursuant to Section 3.2(a).

Expiration Date: The date which is the fourth anniversary of the Final Closing.

Fair Market Value: The fair market value of the Investments, determined as provided in Section 4.7.

Feeder Fund: shall mean a Limited Partner (a) formed to serve as a collective investment vehicle which will invest substantially all of its investable resources in the Partnership and (b) designated as such in writing by the General Partner upon its admission to the Partnership.

Feeder Fund Investor: shall mean a limited partner in any Feeder Fund.

Final Distribution: The distribution described in Section 9.3.

Final Closing Date: Twelve months after the Initial Closing.

Fiscal Quarter: The calendar quarter or, in the case of the first fiscal quarter of the Partnership, the period commencing on the Initial Closing and ending on the last day of the calendar quarter occurring at least 45 days after the Initial Closing and, in the case of the last fiscal quarter of the Partnership, ending on the date on which the winding up of the Partnership is completed, as the case may be.

Fiscal Year: As defined in Section 2.9.

Follow-On Investment: Any further investment in or relating to an existing Investment.

Follow-Up Investment: Any Investment which has not been made on or prior to the Expiration Date and which on or prior to the Expiration Date the Partnership has entered into a letter of intent, written agreement in principle or written definitive agreement to make.

Full Investment: The time at which the excess of (a) the aggregate Unpaid Capital Commitments over (b) the aggregate Capital Contributions which have been made or called, committed or reserved for Investments (including Follow-On Investments and Follow-Up Investments) is equal to or less than 10% of the aggregate Capital Commitments.

General Partner: JER Real Estate Advisors III, L.P., a Delaware limited partnership and an affiliate of JER, and any general partner substituted therefor in accordance with this Agreement.

General Partner Expenses: As defined in Section 6.1.

Income Tax Amount: With respect to any Carried Interest distributed to the General Partner with respect to a Limited Partner, the amount of income tax imposed on (i) allocations of taxable income related to such Carried Interest or (ii) distributions of Carried Interest, with such income tax (a) calculated by assuming that (x) the tax rate imposed is the Assumed Income Tax Rate in effect in the Fiscal Year of any such allocation and (y) capital losses from the Disposition of an Investment allocated to the General Partner relating to the Carried Interest ("Capital Losses") shall reduce capital gains from the Disposition of an Investment allocated to the General Partner relating to the Carried Interest ("Capital Gains") only to the extent of the amount of Capital Gains recognized in the Fiscal Year of the recognition of a Capital Loss or a subsequent Fiscal Year (only to the extent that Capital Losses may properly offset such Capital Gain) and (b) reduced by the amount of any tax benefit realized by the General Partner (or its direct or indirect owners) in the year in which the General Partner is required to make a payment of the final Clawback Amount, as calculated by the Partnership's accountants, which tax benefit is attributable solely to the making of such payment and which benefit shall be determined after first taking all other items of income, gain, loss, deduction or credit (relating to the Partnership only) of the General Partner (or its direct or indirect owners) into account.

Indebtedness: With respect to the Partnership or an Investment entity, (i) all indebtedness of such Person for borrowed money or for the deferred purchase price of property, goods or services, including reimbursement obligations, and all other obligations contingent or otherwise of such Person with respect to surety bonds, letters of credit and bankers' acceptances whether or not matured, and hedges and other derivative contracts and financial instruments, (ii) all obligations of such Person evidenced by notes, bonds, debentures, or similar instruments, (iii) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (iv) all capital lease obligations of such Person, (v) all indebtedness referred to in clause (i), (ii), (iii), or (iv) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any lien upon or in property (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness, and (vi) all Indebtedness of others guaranteed by such Person.

Indemnified Party: As defined in Section 4.3(a).

Initial Closing: The initial closing of Capital Commitments to the Partnership occurring on the date hereof.

Initial Investment Date: The closing date of the Partnership's first Investment.

Initial Payment Date: As defined in Section 3.1(c)(iv).

Insolvency: With respect to any Person, the admission by such Person in writing that it is unable to pay its debts generally as they come due, the taking by such Person of any corporate action in furtherance of any petition, application or proceeding relating to itself under any bankruptcy, reorganization, arrangement or similar law, or such Person becoming insolvent or being unable to pay its obligations and debts when they generally become due.

Interest: The entire partnership interest owned by a Partner in the Partnership at any particular time, including the right of such Partner to any and all benefits to which a Partner may be entitled as provided in this Agreement, together with the obligations of such Partner to comply with all the terms and provisions of this Agreement.

Investments: As defined in the Investment Guidelines.

Investment Guidelines: The investment objectives and policies set forth in Annex A.

Investment Proceeds: Current Proceeds and Disposition Proceeds.

Investor Advisory Committee: As defined in Section 5.4(a).

Investor Consent: As defined in Section 4.2(c)(ii).

Investor Note Facility: As defined in Section 4.2(c)(ii).

JER: J.E. Robert Company Inc., a Virginia corporation.

JER CMBS Fund: A fund organized by JER or any of its affiliates primarily to invest in CMBS and other related loans issued in connection with Conduit Securitizations.

JER Europe Fund I: The collective reference to JER Real Estate Partners Europe, C.V., JER Real Estate Qualified Partners Europe, L.P., any additional collective investment vehicles or other arrangements for certain types of investors formed to co-invest in the same real estate and real estate related investments as such partnerships, and any successor investment vehicles thereto.

JER Europe Fund II: The collective reference to JER Real Estate Partners Europe, II, L.P., JER Real Estate Partners Europe II-A, L.P., any additional collective investment vehicles or other arrangements for certain types of investors formed to co-invest in the same real estate and real estate related investments as such partnerships, and any successor investment vehicles thereto.

JER Fund I: The collective reference to JER Real Estate Partners, L.P., and JER Real Estate Qualified Partners, L.P., each a Delaware limited partnership.

JER Fund II: The collective reference to JER Real Estate Partners II, L.P., JER Real Estate Qualified Partners II, L.P. and JER Real Estate Partners II-A, L.P., each a Delaware

limited partnership, any additional collective investment vehicles or other arrangements for certain types of investors formed to co-invest in the same real estate and real estate related investments as such partnerships, and any successor investment vehicles thereto.

Legally Binding Agreement: An agreement to make an Investment which is legally binding on the Partnership and which does not provide for the unilateral right of the Partnership to cancel or terminate without penalty or liability.

Limited Partners: The parties listed as limited partners in the books and records of the Partnership or any Person who has been admitted to the Partnership as a substituted or additional Limited Partner in accordance with this Agreement.

Majority (or other specified percentage) in Interest: A "Majority in Interest" of the Limited Partners means, at any time, the Limited Partners holding a majority of the total Interests then entitled to vote in the Partnership, as determined on the basis of Capital Commitments. Any other specified percentage in Interest of the Limited Partners means, at any time, the Limited Partners holding the specified percentage of the total Interests then entitled to vote in the Partnership, as determined on the basis of Capital Commitments.

Management Fee: The management fee payable to the General Partner in accordance with this Agreement.

Management Fee Payment Date: With respect to installments of the Management Fee due after the Initial Payment Date, each subsequent one-month anniversary of the Initial Closing.

Marketable Securities: Securities (a) of a class that are traded on an established U.S. or non-U.S. securities exchange, reported through the National Association of Securities Dealers, Inc. Automated Quotation System or comparable non-U.S. established over-the-counter trading system, otherwise traded over-the-counter or traded on PORTAL (in the case of securities eligible for trading pursuant to Rule 144A under the Securities Act or any successor rule thereto ("Rule 144A")) and (b) are freely tradeable. Freely tradeable for this purpose shall mean securities that are not subject to any contractual restrictions on transfer (other than customary underwriters' "lockup" provisions not to exceed 180 days) and that either are (A) transferable by a Limited Partner pursuant to a then effective registration statement under the Securities Act (or similar applicable statutory provision in the case of non-U.S. securities), (B) transferable by the Limited Partners who are not Affiliates of the General Partner pursuant to Rule 144(k) under the Securities Act or any successor rule thereto (or similar applicable rule in the case of non-U.S. securities) or (C) transferable by the Limited Partners pursuant to Rule 144A which shall include (x) a covenant by the issuer of such security to comply with the reporting and informational requirements under Rule 144A and (y) eligibility for trading such securities on PORTAL.

Material Adverse Event: Means (i) the Bankruptcy or Insolvency of the Partnership, (ii) a determination by a taxing authority having jurisdiction over the Partnership that the Partnership is taxable as a corporation or as a publicly traded partnership or (iii) the inability of the Partnership or the General Partner to comply with or otherwise satisfy the

requirements of any law or any judgment or award or any order or ruling in the conduct of the Partnership's affairs or the General Partner's affairs, as the case may be, which would have a material adverse effect on the Partnership or would have a material adverse effect on the General Partner or the General Partner's ability to effectively perform its duties under this Agreement.

Mexican Fund: A fund organized by JER or any of its affiliates, either alone or in cooperation with one or more co-sponsors, to make real estate investments in Mexico.

Net Loss from Writedowns: As defined in Section 3.5(c).

Nonrecourse Deductions: As defined in U.S. Treasury Regulations Section 1.704-2(b).

Non-US/Canadian Entity: Any company or other entity that has less than 50% of its assets within the United States or Canada (such assets to be determined on a historical or pro forma basis as of the end of the fiscal quarter immediately prior to acquisition). The determination of a Non-US/Canadian Entity's percentages of assets pursuant to this definition shall be made in accordance with generally accepted accounting principles and on a consolidated basis with all subsidiaries of such Non-US/Canadian Entity. If any Portfolio Company that is not a Non-US/Canadian Entity as of the date of the Partnership's initial investment therein acquires thereafter one or more subsidiaries or assets which would result in such Portfolio Company having less than 50% of its assets within the United States or Canada, then, for purposes of determining whether any subsequent Partnership Investment would result in more than 30% of the Partnership's aggregate Capital Commitments being invested in Non-US/Canadian Entities, such Portfolio Company shall be deemed a Non-US/Canadian Entity for as long as such Portfolio Company continues to have less than 50% of its assets within the United States or Canada; *provided* that for the avoidance of doubt the foregoing shall not restrict the Partnership's ability to make Follow-On Investments or preclude the Partnership from consummating any proposed Investment as to which the Partnership has entered into a Legally Binding Agreement prior to such Portfolio Company becoming a Non-US/Canadian Entity.

Optional Co-Investment Opportunity: As defined in Section 5.3(b).

Organizational Expenses: All out-of-pocket costs and expenses incurred in connection with the organization of the Partnership, each Parallel Fund and the General Partner and the offering of interests in the Partnership and any Parallel Fund, including any related legal and accounting fees and expenses, printing and document production costs, long distance telephone charges, postage and delivery charges, duplicating and travel expenses; provided that (i) each of the Partnership and any Parallel Fund shall bear, and the other or others shall not pay, the costs which are unique to the organization and the offering of limited partnership interests therein, and (ii) the total amount of Organizational Expenses to be paid by the Limited Partners and limited partners of or other investors in any Parallel Fund that are not Affiliates of JER shall not exceed, unless otherwise approved by the Investor Advisory Committee, \$1,250,000.

Other Fees: As defined in Section 6.2(d)(i).

Parallel Fund: As defined and identified in Section 2.12.

Parallel Fund Capital Commitment: With respect to a partner or other investor in a Parallel Fund, the amount set forth in its subscription agreement as its capital commitment, or the amount of such investor's commitment as specified in its commitment agreement with the General Partner, as the case may be, as such amount may be increased at any subsequent closing of such Parallel Fund or otherwise adjusted pursuant to the governing documents of such Parallel Fund.

Partner Nonrecourse Debt Minimum Gain: An amount with respect to each partner nonrecourse debt (as defined in U.S. Treasury Regulations Section 1.704-2(b)(4)) equal to the Partnership Minimum Gain that would result if such partner nonrecourse debt were treated as a nonrecourse liability (as defined in Treasury Regulations Section 1.752-1(a)(2)) determined in accordance with Treasury Regulations Section 1.704-2(i)(3).

Partner Nonrecourse Deductions: As defined in U.S. Treasury Regulations Section 1.704-2(i)(2).

Partner of the General Partner: Any person who is a partner of JER Real Estate Advisors III, L.P.; *provided* that no Partner of the General Partner may be an organization which is a qualified organization (within the meaning of Section 514(c)(9) of the Code) and which receives any part of the Carried Interest.

Partners: The General Partner and the Limited Partners.

Partnership: JER Real Estate Qualified Partners III, L.P., a Delaware limited partnership.

Partnership Expenses: As defined in Section 6.3(a).

Partnership Minimum Gain: As defined in U.S. Treasury Regulations Section 1.704-2(b)(2) and 1.704-2(d).

Passive Public Equity Investment: Means any investment by the Partnership and the Parallel Funds in any publicly-traded equity securities of a Portfolio Company or proposed Portfolio Company acquired in a non-negotiated open market purchase in respect to which the General Partner does not intend, at the time the Partnership makes such investment, to obtain rights to participate in, or influence the conduct of, the management of such Portfolio Company.

Payment Date: As defined in Section 3.1(c)(i).

Payment Notice: As defined in Section 3.1(c)(ii).

Percentage Interest: With respect to any Partner and any Investment, the ratio of such Partner's Capital Contribution to that Investment to the total Capital Contributions of all Partners to that Investment; *provided* that the Capital Contribution of each Partner with respect to an Investment shall be adjusted to reflect any return of Capital Contributions pursuant to Section 3.3; and *provided, further*, that for these purposes (but not for the purpose of determining Unpaid Capital Commitments) the Capital Contribution of each Partner to an Investment shall be

adjusted to reflect any changes to the Capital Account of such Partner as a result of any adjustment to the Carrying Value of such Investment pursuant to a Subsequent Closing.

Person: Any individual, partnership, corporation, limited liability company, unincorporated organization or association, trust (including the trustees thereof, in their capacity as such) or other entity.

Plan Asset Regulations: The regulations issued by the Department of Labor at Section 2510.3-101 of Part 2510 of Chapter XXV, Title 29 of the Code of Federal Regulations or any successor regulations.

Portfolio Company(ies): Means, with respect to any Investment, any Person that is the issuer of the securities that are the subject of such Investment.

Predecessor Funds: JER Europe Fund I, JER Fund I, JER Europe Fund II and JER Fund II.

Prime Rate: The rate of interest per annum publicly announced from time to time by JPMorgan Chase (or any successor thereto) as its prime rate in effect at its principal office in New York City. The Prime Rate is not intended to be the lowest rate of interest charged by such bank in connection with extensions of credit to debtors.

Profit and Losses: For each Fiscal Year or other period, the taxable income or loss of the Partnership, or particular items thereof, determined in accordance with the accounting method used by the Partnership for Federal income tax purposes with the following adjustments: (a) all items of income, gain, loss or deduction allocated pursuant to Sections 10.3 (other than 10.3(g)) shall not be taken into account in computing such taxable income or loss; (b) any income of the Partnership that is exempt from Federal income taxation and not otherwise taken into account in computing Profits and Losses shall be added to such taxable income or loss; (c) if the Carrying Value of any asset differs from its adjusted tax basis for Federal income tax purposes, any gain or loss resulting from a disposition of such asset shall be calculated with reference to such Carrying Value; (d) upon an adjustment to the Carrying Value of any asset, pursuant to the definition of Carrying Value (other than an adjustment in respect of depreciation), the amount of the adjustment shall be included as gain or loss in computing such taxable income or loss; (e) if the Carrying Value of any asset differs from its adjusted tax basis for Federal income tax purposes the amount of depreciation, amortization or cost recovery deductions with respect to such asset for purposes of determining Profits and Losses shall be an amount which bears the same ratio to such Carrying Value as the Federal income tax depreciation, amortization or other cost recovery deductions bears to such adjusted tax basis (provided that if the Federal income tax depreciation, amortization or other cost recovery deduction is zero, the General Partner may use any reasonable method for purposes of determining depreciation, amortization or other cost recovery deductions in calculating Profits and Losses); and (f) except for items in (a) above, any expenditures of the Partnership not deductible in computing taxable income or loss, not properly capitalizable and not otherwise taken into account in computing Profits and Losses pursuant to this definition shall be treated as deductible items.

Pro Rata Share: As defined in Section 3.1(c)(iii).

Realized Capital and Costs: As defined in Section 3.5(a)(i).

Realized Investment: As of any date, an Investment which has been the subject of a Disposition on or prior to such date.

Reduction Amount: As defined in Section 6.2(d)(ii).

Required Interest: As defined in Section 11.4.

Securities Act: The Securities Act of 1933, as amended.

Similar Law: Any federal, state, local, non-U.S. or other law or regulation that contains one or more provisions that are similar to any of the fiduciary responsibility or prohibited transaction provisions contained in Title I of ERISA or Section 4975 of the Code.

Subscription Agreements: Each of the several Subscription Agreements between the Partnership and the Limited Partners.

Subsequent Closings: As defined in Section 3.3(a).

Successor Fund: As defined in Section 4.6(a).

Temporary Investments: Short-term investments in money market funds, bank accounts and other money market instruments reasonably determined by the General Partner to be of high quality.

Temporary Investment Income: Income of the Partnership from sources other than Investments, net of Partnership Expenses and reserves therefor which are allocated to such income in accordance with Section 6.3(d) and (e).

10% Preferred Current Return: With respect to any Limited Partner other than Excepted JER Investors, an annualized cumulative monthly compounded return of 10% which (a) the aggregate amount of Current Proceeds from an Unrealized Investment that have been distributed to such Limited Partner on or prior to such date represents on (b) the total amount of Capital Contributions of such Limited Partner to such Unrealized Investment. Such calculation shall (a) commence on the date or dates such Capital Contributions were paid by such Limited Partner, taking into account the timing and amount of such Capital Contributions, (b) take into account the timing and amount of distributions of Current Proceeds made to such Limited Partner and (c) treat payments made or received during a month as being made or received as of the first day of the month.

10% Preferred Realized Return: With respect to any Limited Partner other than Excepted JER Investors, an annualized cumulative monthly compounded internal rate of return of 10% which (a) the aggregate amount of Investment Proceeds that have been distributed to such Limited Partner on or prior to such date represents on (b) the total amount of Realized Capital and Costs of such Limited Partner. Such calculation shall (a) commence on the date or

dates such Realized Capital and Costs were paid by such Limited Partner, taking into account the timing and amount of such Realized Capital and Costs with the allocable portion of such Limited Partner's Direct Payments and Capital Contributions for Organizational Expenses, Management Fees, Placement Fees and Partnership Expenses included in such Limited Partner's Realized Capital and Costs being determined on a pro rata basis, (b) take into account the timing and amount of distributions made to such Limited Partner and (c) treat payments made or received during a month as being made or received as of the first day of the month.

10% Preferred Realized and Unrealized Return: With respect to any Limited Partner other than Excepted JER Investors as of any date, an annualized cumulative monthly compounded internal rate of return of 10% which (a) the aggregate amount of Investment Proceeds distributed to such Limited Partner on or prior to such date and such Limited Partner's projected share of future Investment Proceeds, as reasonably determined by the General Partner, from Investments which have not been the subject of Dispositions, represents on (b) the total amount of Capital Contributions and Direct Payments by such Limited Partner. Such calculation shall (a) commence on the date or dates such Capital Contributions and Direct Payments were paid by such Limited Partner, taking into account the timing and amount of such Capital Contributions and Direct Payments, (b) take into account the timing and amount of distributions made to such Limited Partner and (c) treat payments made or received during a month as being made or received as of the first day of the month.

Unpaid Capital Commitment: As to any Partner as of any date, an amount equal to:

- (a) such Partner's Capital Commitment, minus
- (b) the aggregate amount of such Partner's Capital Contributions (but not Additional Amounts thereon) made on or prior to such date for Investments, minus
- (c) the amount of any outstanding Indebtedness of the Partnership incurred or assumed thereby as provided under Section 4.2(c) solely to the extent the General Partner has notified the Limited Partners in writing, citing this clause (c), that it intends to repay such Indebtedness, if required, by a drawdown pursuant to Section 3.1(a)(v), in each case in respect of which such Partner would be required to make a Capital Contribution pursuant to Section 3.1(a)(v), while such Indebtedness remains outstanding (it being understood that Unpaid Capital Commitments shall not be deemed further reduced under this clause (c) to the extent Capital Contributions are requested and made pursuant to Section 3.1(a)(v) for the purpose of paying any such Indebtedness), minus
- (d) the excess, if any, of (i) the aggregate amount of such Partner's Capital Contributions and Direct Payments (but not Additional Amounts thereon) made on or prior to such date for Organizational Expenses, Partnership Expenses and Management Fees over (ii) the amount of all distributions other than those described in clause (e) below to such Partner made on or prior to such date, *plus*

term of the Partnership for successive one-year periods up to a maximum of two years in order to effect an orderly dissolution and winding up of the Partnership. During the period of any such extension of the term of the Partnership, the General Partner shall manage the affairs of the Partnership with a view toward effecting an orderly dissolution and winding up of the Partnership and, accordingly, shall not make any new Investments.

2.8 Size. The sum of (i) the aggregate Capital Commitments and (ii) the aggregate Parallel Fund Capital Commitments shall not exceed \$1,000,000,000. The Initial Closing shall only occur if the sum of the amounts in clauses (i) and (ii) in the preceding sentence is at least \$100,000,000.

2.9 Fiscal Year. The fiscal year ("*Fiscal Year*") of the Partnership shall be the calendar year or, in the case of the first and last fiscal years of the Partnership, the fraction thereof commencing on the Initial Closing or ending on the date on which the winding up of the Partnership is completed, as the case may be. The taxable year of the Partnership shall be determined under Section 706 of the Code. The General Partner shall have the authority to change the ending date of the Fiscal Year if the General Partner shall determine in good faith that such change is necessary or appropriate, provided that the General Partner shall promptly give notice of any such change to the Limited Partners.

2.10 Withdrawal of Initial Limited Partner. Upon the admission of one or more Limited Partners to the Partnership at the Initial Closing, the Initial Limited Partner shall (a) receive a return of any capital contribution made by him to the Partnership, (b) withdraw as the Initial Limited Partner of the Partnership, and (c) have no further right, interest or obligation of any kind whatsoever as a Partner in the Partnership.

2.11 Alternative Investment Structure. (a) If the General Partner determines in good faith that for legal, tax, regulatory or other reasons it is in the best interests of the Partners that an Investment be made through an alternative investment structure, the General Partner shall, unless the Investor Advisory Committee objects, be permitted to structure the making of all or any portion of such Investment outside of the Partnership, by requiring the Partners to make such Investment through a limited partnership or other entity that will invest on a parallel basis with or in lieu of the Partnership, as the case may be. Subject to Section 3.2, the Partners shall be required to make Capital Contributions directly to each such alternative investment vehicle to the same extent, for the same purposes and on the same terms and conditions as Partners are required to make Capital Contributions to the Partnership, and such Capital Contributions shall reduce the Unpaid Capital Commitments of the Limited Partners to the same extent as if Capital Contributions were made to the Partnership with respect thereto. Each Partner shall have the same economic interest in all material respects in Investments made pursuant to this Section 2.11(a) as such Partner would have if such Investments had been made solely by the Partnership, and the other terms of such vehicle shall be substantially identical in all material respects to those of the Partnership, to the maximum extent applicable; *provided* that the General Partner (or an Affiliate thereof) shall serve as the general partner or similar managing fiduciary of such vehicle; and *provided further*, that the determination of allocations and distributions pursuant to Articles III, IX and X and of the Clawback Amount shall be calculated without regard to the results of investments made by any alternative investment vehicle established pursuant to this Section 2.11(a), and the results of investments made by such vehicle will not be aggregated for purposes

of making allocations and distributions with respect to such investments with the results of Investments or investments of any other alternative investment vehicles established pursuant to this Section 2.11(a).

(b) *Restrictions Applicable to All Alternative Investment Vehicles.*

Notwithstanding any provision of this Section 2.11 to the contrary:

(i) the General Partner shall not be permitted to make an Investment through a structure pursuant to this Section 2.11 if such structure would result in a material adverse consequence for any Limited Partner or with respect to any Limited Partner's interest in such Investment, and such consequence would not have resulted if such Investment had been made by the Partnership;

(ii) the General Partner and its Affiliates shall not receive any additional fees or compensation solely by reason of the use of an alternative investment structure pursuant to this Section 2.11;

(iii) the General Partner shall provide the Limited Partners with opinions of counsel regarding the alternative investment vehicle used for such Investment substantially identical in all material respects to those provided to the Limited Partners with respect to the Partnership on the Initial Closing;

(iv) the General Partner's obligations provided in Section 4.8 shall apply with respect to such vehicle;

(v) such vehicle (or the entity in which such vehicle invests) shall have the same terms and conditions specific to BHC Partners and Benefit Plan Partners as set forth in this Agreement;

(vi) such vehicle shall be treated as a partnership for U.S. federal income tax consequences provided that an alternative investment vehicle established for non-U.S. Investments may include a vehicle that is a partnership for U.S. federal income tax purposes in which the Limited Partners participate through a non-U.S. entity that elects to be treated as a corporation for U.S. federal income tax purposes. Such non-U.S. entity shall be treated as a Feeder Fund for all purposes hereof; and

(vii) such vehicle (or the entity in which such vehicle invests) shall provide for the limited liability of the Limited Partners as a matter of the organizational documents of such vehicle (or the entity in which such vehicle invests) and as a matter of local law to the same extent in all material respects as is provided to the Limited Partners under the Act and this Agreement.

In connection with any proposed Investment through an alternative investment vehicle permitted by this Section 2.11, the General Partner shall provide each member of the Investor Advisory Committee (and any Limited Partner who so requests) with copies of the organizational documents of such vehicle at least 10 Business Days in advance of the closing of such Investment and shall provide the Investor Advisory Committee and each Limited Partner with

such additional information as the Investor Advisory Committee and such Limited Partner may reasonably request to verify compliance with the terms of this Section 2.11.

2.12 *Parallel Investment Entities.* In order to facilitate investment by non-U.S. and certain other investors, the General Partner has established, and may establish in the future in accordance with the provisions below, one or more additional collective investment vehicles or other arrangements for certain types of investors (each such vehicle or arrangement, specifically excluding any Co-Investment Fund, a "*Parallel Fund*") formed to co-invest in the real estate and real estate related investments in which the Partnership invests (as more fully provided in each Parallel Fund's partnership agreement, or commitment agreement, as the case may be). As of the date hereof, the only Parallel Fund is JER Real Estate Partners III, L.P.; the General Partner shall notify the Investor Advisory Committee of the establishment of any additional Parallel Funds and shall provide the Investor Advisory Committee upon request with limited partnership agreements or other governing documents and such other information as the Investor Advisory Committee may reasonably request to verify compliance with the requirements of this Section 2.12. The economic terms of each Parallel Fund shall be no more favorable in any material respect to the General Partner or to the limited partners thereof than those of the Partnership. The other terms of each Parallel Fund shall be substantially the same as those contained herein, except only to the extent necessary or desirable to address the particular tax, regulatory or similar needs of the Parallel Fund or one or more Parallel Fund investors. Subject to applicable legal, tax or regulatory constraints, the Parallel Funds shall invest side-by-side with the Partnership and any Parallel Fund on identical economic and governance terms, sharing in an Investment opportunity pro rata in proportion to their unused capital commitments and similarly sharing any related investment expenses.

2.13 Co-Investment Funds. In order to facilitate investment by certain investors that prefer to restrict the investment of their commitments to particular types of investments or that want to allocate more of their commitment to investments in a Covered Region, the General Partner and its Affiliates may establish in accordance with the provisions below one or more additional collective investment vehicles or other arrangements for such investors, including successor vehicles or arrangements thereto (each such vehicle or arrangement, specifically excluding any Parallel Fund and including JER Europe Fund II, a "Co-Investment Fund"), to invest in a Covered Region in real estate and real estate related investments in which the Partnership may also invest. As of the date hereof, the only Co-Investment Fund is JER Europe Fund II; the General Partner shall notify the Investor Advisory Committee of the establishment of any additional Co-Investment Funds and shall provide the Investor Advisory Committee upon request with limited partnership agreements or other governing documents and such other information as the Investor Advisory Committee may reasonably request to verify compliance with the requirements of this Section 2.13. Except as the Investor Advisory Committee may otherwise approve, the economic terms of each Co-Investment Fund (other than those contained in JER Europe Fund II and Mexican Fund and with respect to the provisions of Section 3.5(a)(iv) hereof) which co-invests with the Partnership and any Parallel Fund shall be substantially similar in all material respects to those of the Partnership with respect to the limited partners or the General Partner thereof. Subject to applicable legal, tax or regulatory constraints or certain other considerations, the Co-Investment Funds shall invest side-by-side with the Partnership and any Parallel Fund on identical economic and governance terms, sharing in each relevant Covered Region investment opportunity in accordance with Section 4.6(d), and similarly sharing any related investment expenses, including expenses of unconsummated transactions.

2.14 Mexican Fund. The Partnership and the Parallel Funds shall have the right, but not the obligation, to co-invest in any investment made by the Mexican Fund at the discretion of the General Partner.

2.15 Feeder Fund. The Interest of a Feeder Fund may be treated as Interests held by more than one Limited Partner for purposes of determining the appropriate treatment of such Feeder Fund in connection herewith, in light of the multiple interestholders in such Feeder Fund. This shall include reflecting on the books and records of the Partnership a separate Interest held by such Feeder Fund with respect to each interestholder therein.

(a) The excuse, exclusion and withdrawal provisions described herein shall be applied as though the interestholders in a Feeder Fund had made respective direct Commitments to the Partnership.

(b) If any Feeder Fund Investor fails to make a contribution to a Feeder Fund, such Feeder Fund may be treated as a defaulting Limited Partner in accordance with the provisions herein, but solely with respect to such Feeder Fund Investor's indirect interest in the Partnership.

(c) In the case of any vote of Limited Partners under this Agreement or any law, a Feeder Fund shall vote its Interest in proportion to the votes on such matter of such Feeder

Fund's investors, based on their pro rata interest therein, that are unaffiliated with the General Partner.

(d) The General Partner may make any adjustments to the Interest of a Feeder Fund to accomplish the overall objectives of this Section 2.15; provided that such adjustments shall in no way have a materially adverse effect on the Interests of any other Partner; and provided further, that nothing in this Section 2.15 shall be construed as making any Feeder Fund Investor a Limited Partner.

ARTICLE III

Capital Contributions and Direct Payments; Distributions

3.1 *Capital Contributions and Direct Payments*(a) *Capital Contributions*. Subject to Section 3.2, each Partner agrees to make contributions to the capital of the Partnership in cash from time to time, payable in United States dollars, in installments as follows:

(i) *With respect to any Capital Contribution for the making of Investments generally*: At any time and from time to time on or prior to the Expiration Date, each Limited Partner shall, on any Payment Date, contribute to the Partnership its Pro Rata Share of the aggregate amount to be contributed by all Limited Partners for such Investment, but a Limited Partner in no event shall be required to make a Capital Contribution to the Partnership on any date in an amount greater than its Unpaid Capital Commitment as of such date. The amount which a Limited Partner is required to contribute on any Payment Date shall be specified by the General Partner in a Payment Notice delivered to such Limited Partner in respect of such Payment Date, and the General Partner shall contribute to the Partnership on such Payment Date an amount equal to its Pro Rata Share of all of the Capital Contributions to be made on such date by all Partners;

(ii) *With respect to any Capital Contribution for the making of a Follow-Up Investment*: At any time and from time to time after the Expiration Date and on or prior to the six month anniversary of the Expiration Date, each Limited Partner shall, on any Payment Date, contribute to the Partnership its Pro Rata Share of the aggregate amount to be contributed by all Limited Partners for a Follow-Up Investment; *provided that* a Limited Partner in no event shall be required to make a Capital Contribution to the Partnership on any date in an amount greater than its Unpaid Capital Commitment as of such date. The amount which a Limited Partner is required to contribute on any Payment Date shall be specified by the General Partner in a Payment Notice delivered to such Limited Partner in respect of such Payment Date, and the General Partner shall contribute to the Partnership on such Payment Date an amount equal to its Pro Rata Share of all of the Capital Contributions to be made on such date by all Partners;

(iii) *With respect to any Capital Contribution for the making of a Follow-On Investment After the Expiration Date*: At any time and from time to time for a period of three years after the Expiration Date, each Limited Partner shall, on any Payment Date,

contribute to the Partnership its Pro Rata Share of the aggregate amount to be contributed by all Limited Partners for a Follow-On Investment in an aggregate amount up to, but in any event no more than, 10% of the Partnership's Capital Commitments; *provided that* a Limited Partner in no event shall be required to make a Capital Contribution to the Partnership on any date in an amount greater than its Unpaid Capital Commitment as of such date. The rationale for a Follow-On Investment and the amount which a Limited Partner is required to contribute on any such Payment Date shall be specified by the General Partner in a Payment Notice delivered to such Limited Partner in respect of such Payment Date, and the General Partner shall contribute to the Partnership on such Payment Date an amount equal to its Pro Rata Share of all of the Capital Contributions to be made on such date by all Partners;

(iv) *With respect to any Capital Contribution for the payment of Partnership Expenses on and after the Initial Investment Date:* At any time and from time to time during the term of the Partnership on and after the Initial Investment Date, on any Payment Date, each Limited Partner shall contribute to the Partnership its Pro Rata Share of the aggregate amount to be contributed by all Limited Partners on such date for Partnership Expenses, but a Limited Partner in no event shall be required to make a Capital Contribution to the Partnership on any date in an amount greater than its Unpaid Capital Commitment as of such date; *provided, that*, in no event, shall the aggregate amount of Capital Contributions and Direct Payments that a Limited Partner shall be required to make hereunder for the satisfaction of indemnity obligations under Section 4.4 and 5.4(f), exceed 25% of its Capital Commitment and *provided, further*, that (A) subject to clause (B) below, in connection with any Partnership Expense directly and solely attributable to an Investment, only those Partners who have a Percentage Interest in such Investment shall be required to make Capital Contributions in respect of such Partnership Expense (calculated on the basis of such Partners' Percentage Interests with respect to such Investment), (B) subject to clause (C) below, in connection with any Broken Deal Expenses or other amounts referred to in Section 6.3(a)(iii), only those Partners who are not excused or excluded from participation with respect to the proposed Portfolio Investment relating to such Partnership Expense shall be required to make Capital Contributions in respect of such Partnership Expense (calculated on the basis of such Partners' Unpaid Capital Commitments) and (C) the General Partner may calculate the Capital Contribution to be made by the Partners with respect to any Partnership Expense on any other basis if the General Partner determines in good faith that such other basis is clearly more equitable. The amount which a Limited Partner is required to contribute on any Payment Date shall be specified by the General Partner in a Payment Notice delivered to such Limited Partner in respect of such Payment Date, and the General Partner shall contribute to the Partnership on such Payment Date an amount equal to its Pro Rata Share of all of the Capital Contributions to be made on such date by all Partners;

(v) *With respect to any Capital Contributions for the repayment of Indebtedness on or after the Initial Investment Date:* At any time and from time to time on or prior to the Expiration Date, on any Payment Date on and after the Initial Investment Date, each Limited Partner shall contribute to the Partnership its Pro Rata Share of the aggregate amount to be contributed by all Limited Partners on such date to

satisfy the Partnership's or a Portfolio Company's obligation under any Indebtedness, but a Limited Partner in no event shall be required to make a Capital Contribution to the Partnership on any date in an amount greater than its Unpaid Capital Commitment as of such date; *provided* that the General Partner may deliver a Payment Notice to each Limited Partner after the Expiration Date if such Limited Partner has received a notice on or prior to the Expiration Date, stating that Capital Contributions may be required to satisfy the Partnership's obligation under any Indebtedness outstanding on the Expiration Date and specifying, to the best of the General Partner's knowledge, the amount of any Capital Contribution that may be so required. The amount which a Limited Partner is required to contribute on any Payment Date shall be specified by the General Partner in a Payment Notice delivered to such Limited Partner in respect of such Payment Date, and the General Partner shall contribute to the Partnership on such Payment Date an amount equal to its Pro Rata Share of all of the Capital Contributions to be made on such date by all Partners;

(vi) *With respect to Capital Contributions for Organizational Expenses on and after the Initial Investment Date:* At any time and from time to time during the term of the Partnership on and after the Initial Investment Date, each Limited Partner shall contribute to the Partnership such Limited Partner's Pro Rata Share of the aggregate amount to be paid by all Limited Partners for the Organizational Expenses (which aggregate amount shall equal the product of (A) one minus the General Partner's Pro Rata Share and (B) the Partnership's share (pro rata with each Parallel Fund based upon their respective capital commitments) of the amount of such Organizational Expenses), and a Payment Notice shall be delivered in respect of such contributions specifying the Payment Date therefor; and

(vii) *With respect to Capital Contributions for the Management Fee on and after the Initial Investment Date:* On any Business Day falling on or immediately after each Management Fee Payment Date on and after the Initial Investment Date, each Limited Partner shall contribute to the Partnership the installment of the Management Fee then due and owing applicable to such Limited Partner as determined in accordance with Section 6.2, and a Payment Notice shall be delivered in respect of such contribution specifying such Business Day as the Payment Date therefor.

(b) *Direct Payments.* Subject to Section 3.2, each Limited Partner agrees to make payments ("*Direct Payments*") directly to the General Partner or the placement agent in cash from time to time, payable in United States dollars, in installments as follows:

(i) *With respect to Direct Payments for Organizational Expenses prior to the Initial Investment Date:* On the Initial Payment Date and from time to time thereafter prior to the Initial Investment Date, each Limited Partner shall reimburse the General Partner for such Limited Partner's Pro Rata Share of the aggregate amount to be paid by all Limited Partners for the Organizational Expenses (which aggregate amount shall equal the product of (A) one minus the General Partner's Pro Rata Share and (B) the Partnership's share (pro rata with each Parallel Fund based upon their respective capital commitments) of the amount of such Organizational Expenses), and a Payment Notice

shall be delivered in respect of such Direct Payments specifying the Payment Date therefor;

(ii) *With respect to Direct Payments for the Management Fees prior to the Initial Investment Date:* On the Initial Payment Date and on the Business Day falling on or immediately after each Management Fee Payment Date prior to the Initial Investment Date, each Limited Partner shall make a Direct Payment to the General Partner for the installment of the Management Fee then due and owing applicable to such Limited Partner as determined in accordance with Section 6.2, and a Payment Notice shall be delivered in respect of such Direct Payments specifying the Initial Payment Date or such Business Day, as applicable, as the Payment Date therefor;

(iii) *With respect to any Direct Payments for the payment of Partnership Expenses prior to the Initial Investment Date:* At any time and from time to time during the term of the Partnership prior to the Initial Investment Date, on any Payment Date, each Limited Partner shall reimburse the General Partner for such Limited Partner's Pro Rata Share of the aggregate amount to be paid by all Limited Partners on such date for Partnership Expenses, but a Limited Partner in no event shall be required to make a Direct Payment on any date in an amount greater than its Unpaid Capital Commitment as of such date; *provided, that*, in no event, shall the aggregate amount of Capital Contributions and Direct Payments that a Limited Partner shall be required to make hereunder for the satisfaction of indemnity obligations under Section 4.4 and 5.4(f), exceed 25% of its Capital Commitment; and

(iv) *With respect to Direct Payments for Placement Fees:* On the Initial Payment Date and from time to time thereafter on which an installment of Placement Fees is payable to the placement agent in respect of the subscription by a Limited Partner, each such Limited Partner shall pay to the placement agent the amount of such installment as specified by the General Partner in a Payment Notice delivered to such Limited Partner; *provided* that the amount of such Direct Payment shall reduce the Management Fee payable by such Limited Partner by an equivalent amount. The Placement Fee shall be allocated on a *pro rata* basis to the Limited Partners in accordance with their Capital Commitments.

For purposes of maintaining Capital Accounts and calculating Profits and Losses hereunder, (i) Direct Payments made pursuant to this Section 3.1(b) or Section 3.3 (but excluding any Additional Amounts paid pursuant to Section 3.3) shall be accounted for as if they were contributed to and paid by the Partnership, (ii) the General Partner shall be deemed to have contributed to the Partnership the percentage of Organizational Expenses and Partnership Expenses, as the case may be, for which it has not been reimbursed pursuant to Sections 3.1(b)(i) and (iii) above and (iii) refunds of Direct Payments pursuant to Section 3.3 (but excluding any Additional Amounts paid pursuant to Section 3.3) shall be accounted for as if distributions had been made from the Partnership to the Partners receiving such refunds of Direct Payments.

(c) *Related Definitions.* (i) A "Payment Date" shall mean a date on which Partners are required to make Capital Contributions to the Partnership (or an alternative investment vehicle under Section 2.11) or Direct Payments, which date:

(A) shall be specified in a Payment Notice delivered to each Limited Partner from which a Capital Contribution or Direct Payment is required on such date; and

(B) in the case of a Payment Date that is not the Initial Payment Date, the date of a Subsequent Closing shall be at least ten (10) calendar days after the date of delivery of a Payment Notice; *provided* that (i) without limiting Section 3.1(b) with respect to each ERISA Partner and each Benefit Plan Partner subject to Similar Law (each a "Regulated Plan Partner") on or prior to the Initial Investment Date, the Payment Date in respect of any Capital Contribution to the Partnership called for on or prior to the Initial Investment Date shall be the Initial Investment Date, and the General Partner shall provide each Regulated Plan Partner with notice of the anticipated closing date for such Investment in the Payment Notice relating to such Investment and a follow up notice to each Regulated Plan Partner identifying the actual closing date and (ii) each Regulated Plan Partner shall fund its Capital Contribution for the Partnership's first Investment as early as practicable on such actual closing date; and provided, further, that in lieu of the foregoing the General Partner may in its discretion establish an escrow account in connection with the Capital Contribution for the Partnership's first Investment to be made by each Regulated Plan Partner and the Capital Contributions and other amounts specified in the related Payment Notice shall be funded into such escrow account at such time as set forth in such notice, which date shall not be more than fifteen (15) Business Days prior to the date of the anticipated closing of the Investment to which such notice relates. The terms of the escrow shall be intended to meet the specifications for such an arrangement as set forth in DOL Ad. Op. Let. 95-04A (1995). At the closing of the initial Investment to which such Capital Contributions relate, the agent for such escrow account shall transfer to the Partnership an amount equal to the aggregate amount funded into the escrow account by the Regulated Plan Partners plus interest thereon (net of any escrow agent's fees and expenses). If such Investment fails to close within fifteen (15) Business Days of the date of the anticipated closing (as set forth in the relevant Payment Notice), (i) the amounts funded by each Regulated Plan Partner and (ii) interest thereon (net of any escrow agent's fees and expenses) shall be returned by the agent to each Regulated Plan Partner.

(ii) A "Payment Notice" shall mean a written notice requiring Capital Contributions to the Partnership (or an alternative investment vehicle under Section 2.11) or Direct Payments, which notice shall:

(A) specify the purpose for which the Capital Contributions or Direct Payments are required to be made;

(B) in the case of a Payment Notice with respect to the anticipated making of an Investment, include:

- (I) a statement as to whether the Investment will otherwise be structured through an alternative investment structure pursuant to Section 2.11, and
- (II) a brief description of the identity and nature of such Investment, the business to which it relates, and the type of interest being purchased, except that the General Partner may exclude the specific identity thereof (but not the description of the nature of the Investment and the business to which it relates) if the General Partner determines in good faith that notifying the Limited Partners of such identity would risk jeopardizing such Investment or the General Partner would breach a confidentiality obligation imposed on it with respect to the Investment;

(C) in the case of a Payment Notice with respect to any Capital Contribution required pursuant to Section 3.1(a)(v), indicate the anticipated date of repayment or performance of the Indebtedness and the Investment to which such Indebtedness relates, if any; and

(D) specify each Limited Partner's Pro Rata Share of the Capital Contributions or Direct Payments required to be made by the Limited Partners and the method of calculation thereof.

(iii) A Limited Partner's "*Pro Rata Share*" of the aggregate Capital Contributions and Direct Payments to be made by Limited Partners on any Payment Date for Investments or Partnership Expenses shall mean the percentage that such Limited Partner's Unpaid Capital Commitment as of such date represents of the aggregate Unpaid Capital Commitments as of such date of all Limited Partners from which a Capital Contribution is required on such date. A Limited Partner's "*Pro Rata Share*" of the aggregate Direct Payments or Capital Contributions for Organizational Expenses to be made by Limited Partners on any Payment Date shall mean the percentage that a Limited Partner's Capital Commitment as of such date represents of the aggregate Capital Commitments of all Limited Partners as of such date. The General Partner's Pro Rata Share of any Capital Contributions to be made on any date by all Partners shall mean the percentage that the General Partner's Unpaid Capital Commitment as of such date represents of the aggregate Unpaid Capital Commitments of all Partners as of such date.

(iv) The "*Initial Payment Date*" shall mean the date which is the Business Day occurring on or immediately after the one-month anniversary of the Initial Closing, and on such date Partners will be required to make Direct Payments in respect of Organizational Expenses and the first installment of the Management Fee, as specified by the General Partner in a Payment Notice to the Limited Partners.

(d) Capital Contributions and Direct Payments shall be made by wire transfer of immediately available funds to the account specified in the related Payment Notice, which account shall be, so long as any Investor Consent is outstanding, the account specified in such Investor Consent. Other than as set forth in this Agreement, no Partner shall be entitled to any

interest or compensation by reason of its Capital Contributions or by reason of serving as a Partner. No Partner shall be required to lend any funds to the Partnership.

(e) The General Partner shall cause the books and records of the Partnership to be amended from time to time to reflect the addresses of Partners and changes thereto and the transfer of Interests and changes in Capital Commitments which are accomplished in accordance with the provisions hereof.

(f) The General Partner shall cause the sum of (i) the aggregate Capital Commitments of the General Partner and (ii) the aggregate Parallel Fund Capital Commitments of the General Partner at all times to equal at least \$10,000,000.

(g) If the General Partner determines that a proposed Investment in respect of which Partners have made Capital Contributions will not be consummated (e.g., because a definitive acquisition agreement relating thereto has been terminated), the General Partner shall, within forty-five (45) days after the applicable Payment Date, refund to the Partners which made such Capital Contributions the amounts of such Capital Contributions unless such amounts are required for another Investment to be made within such 45-day period. If the General Partner determines that a proposed Investment in respect of which Partners have made Capital Contributions will not require the full amount of Capital Contributions made therefor, the General Partner shall, within forty-five (45) days after the applicable Payment Date, refund to the Partners which made such Capital Contributions, pro rata to the amounts of such Capital Contributions, the amount of such Capital Contributions which exceeds the portion required to consummate and capitalize such Investment, unless such amounts are required for another Investment to be made within such 45-day period.

(h) If there are any ERISA Partners on the Initial Investment Date, then the General Partner shall deliver to such ERISA Partners as of the Initial Investment Date an opinion of counsel substantially in the form attached as Annex C hereto to the effect that as of such date and after giving effect to such Investment, the Partnership assets are not plan assets (within the meaning of the Plan Assets Regulations) of any such ERISA Partner.

3.2 Excuse, Exclusion and Cancellation. (a) *Excuse.* Notwithstanding anything herein to the contrary, if a Limited Partner delivers to the General Partner (i) within five (5) Business Days after such Limited Partner has been given written notice of the nature of a specific Investment and the business to which it relates pursuant to Section 3.1(c)(ii), an Excuse Notice and (ii) within 10 Business Days after such Limited Partner has been given such notice, a written opinion that satisfies the requirements of the following sentence (or the General Partner in its sole discretion accepts a written confirmation from such Limited Partner to the same effect as such opinion in lieu of such opinion), then such Limited Partner shall be excused from all of its obligation to make a Capital Contribution relating to that Investment (or that part of its obligation which would be reasonably likely to cause a violation as referred to below), including a Capital Contribution for the repayment of any related Indebtedness. Unless waived by the General Partner in its sole discretion, the opinion referred to in the preceding sentence shall be a written opinion of counsel to such Limited Partner (which opinion and counsel shall be reasonably satisfactory to the General Partner and, in the case of a Limited Partner which is an institutional investor, may be staff counsel regularly employed by such institutional investor),

that its participation (or in the case of an excuse from part but not all of its obligation, the part of its participation in question) in such Investment would be reasonably likely to cause a violation of any law, regulation or governmental order to which it is subject or result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code.

(b) *Subsequent Capital Call in the Event of Excuse.* If the opinion or confirmation referred to in Section 3.2(a) is delivered (or waived by the General Partner) (or if a limited partner of a Parallel Fund delivers, pursuant to the comparable provisions of the partnership agreement of such Parallel Fund, any such opinion or confirmation), the General Partner may then deliver a new notice to each other Limited Partner (and to each limited partner of all Parallel Funds) which is able to participate in such Investment indicating the additional payment with respect to its Capital Contribution to be made in respect of such Investment, and each such Limited Partner shall make such additional payment within ten (10) calendar days after having been given such new notice. Additional amounts called for pursuant to this Section 3.2(b) shall be made by each such other Limited Partner in an amount which bears the same ratio to the aggregate of the additional amounts payable by all such other Limited Partners as such other Limited Partner's Unpaid Capital Commitment bears to the Unpaid Capital Commitments of all such other Limited Partners; *provided* that no Limited Partner shall be obligated without its consent to contribute an amount in excess of 133% of the amount of Capital Contributions originally requested from such Partner in respect of such Investment; and provided further that no Partner shall be obligated to contribute an amount in excess of such Limited Partner's Unpaid Capital Commitment.

(c) *Exclusion.* (i) The General Partner may exclude a particular Limited Partner from participating in all or any part of an Investment if the General Partner reasonably determines that:

(A) it is in the best interests of the Partnership for such Limited Partner to be excluded from participation in such Investment because a significant delay, extraordinary expense or materially adverse effect on the Partnership or any of its Affiliates, any Investment or future investment is likely to result from such Limited Partner's participation (or in the case of an exclusion from part but not all of its participation, the part of its participation in question) in such Investment, or

(B) based upon a written opinion of counsel (which opinion and counsel shall be reasonably acceptable to the Limited Partner to be excluded), there is a reasonable likelihood that such Limited Partner's participation (or in the case of an exclusion from part but not all of its participation, the part of its participation in question) in such Investment would cause a violation of any law, regulation or governmental order to which such Limited Partner is subject.

(ii) Any exclusion of a Limited Partner shall be communicated to such Limited Partner at or prior to the time that the General Partner delivers Payment Notices relating to the Capital Contributions in question to the other Limited Partners, and such Payment Notices shall provide the amount of any additional capital which such other Limited Partners (and limited partners of all Parallel Funds) shall be required to

contribute as a result of the developments set forth above or, if such determination is not made until after a Payment Notice for such Investment is delivered to the other Limited Partners (but in any event within ten (10) Business Days after the consummation of such Investment), the General Partner may then deliver a new notice to each other Limited Partner (and to each limited partner of all Parallel Funds) which is able to participate in such Investment indicating the additional payment with respect to its Capital Contribution to be made in respect of such Investment, and, subject to the proviso set forth in this Section 3.2(c), each such Limited Partner shall make such additional payment on the Payment Date in respect of such Investment but in no event earlier than ten (10) Business Days after having been given such new notice. Additional amounts called for pursuant to this Section 3.2(c) shall be made by each such other Limited Partner in an amount which bears the same ratio to the aggregate of the additional amounts payable by all such other Limited Partners as such other Limited Partner's Unpaid Capital Commitment bears to the Unpaid Capital Commitments of all such other Limited Partners; *provided* that no Limited Partner shall be obligated without its consent to contribute an amount in excess of 133% of the amount of Capital Contributions originally requested from such Partner in respect of such Investment; and *provided* further that no Partner shall be obligated to contribute an amount in excess of such Limited Partner's Unpaid Capital Commitment.

(d) The Unpaid Capital Commitment of any Limited Partner excused or excluded from participation in an Investment pursuant to this Section 3.2 shall not be reduced as a result of such excuse or exclusion.

(e) *Cancellation and Suspension.* (i) *Cancellation by General Partner.* The General Partner at any time with the consent of the Investor Advisory Committee may cancel the obligation of all Partners to make Capital Contributions for Investments if in the good faith judgment of the General Partner, changes in applicable law, regulation, case law, judicial or administrative order or decree or governmental license or permit, or any interpretation thereof by any governmental or regulatory authority or court of competent jurisdiction or in business conditions make such cancellation necessary or advisable in the interests of the Partners.

(ii) *Suspension Following Change in Management.* If at any time prior to the expiration or termination of the Commitment Period a Change in Management occurs, the General Partner shall promptly give notice to the Limited Partners of this fact. The obligation of Limited Partners to make Capital Contributions for Investments shall thereupon be suspended until reinstated by the written election or vote of limited partners representing 66-2/3%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds or until a new General Partner is selected and admitted in accordance with Section 8.1(d); *provided* that such suspension shall not apply to any proposed Investment as to which the Partnership has entered into a Legally Binding Agreement prior to the occurrence of such Change in Management.

(iii) *Suspension for Cause.* Upon a determination of Cause by limited partners representing 66-2/3%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds, the obligation of Limited Partners to make Capital Contributions for Investments shall be suspended unless and until the

General Partner shall have cured such Cause in accordance with Section 8.1(b)(i)(B) or a new General Partner shall have been selected and admitted in accordance with Section 8.1; *provided* that no reinstatement of such obligation shall be effective unless it occurs within two years following the commencement of such suspension; and *provided, further*, that such suspension shall not apply to any proposed Investment in which the Partnership has entered into a Legally Binding Agreement to invest prior to such determination of Cause.

(iv) *Suspension Without Cause.* Upon the vote or consent of limited partners representing 66-2/3%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds for any reason, the obligation of Limited Partners to make Capital Contributions for Investments shall be suspended unless and until a new General Partner shall have been selected and admitted in accordance with Section 8.1; *provided* that such suspension shall not apply to any proposed Investment in which the Partnership has entered into a Legally Binding Agreement to invest prior to written notice to the General Partner of such vote or consent.

(v) *Suspension Upon Disabling Event.* Upon the occurrence of a Disabling Event, the obligation of Limited Partners to make Capital Contributions for Investments shall be suspended until a new General Partner shall have been selected and admitted in accordance herewith; *provided* that reinstatement of such obligation shall not be effective unless it occurs within two years following the date of such Disabling Event; and *provided, further*, that such suspension shall not apply to any proposed Investment in which the Partnership has entered into a Legally Binding Agreement to invest prior to the occurrence of such Disabling Event.

(vi) *Suspension Following Material Adverse Event.* If at any time prior to the expiration or termination of the Commitment Period either the General Partner by notice to the Limited Partners or limited partners representing 66-2/3%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds by notice to the General Partner and the other Limited Partners determines in good faith that a Material Adverse Event has occurred, the obligation of Limited Partners to make Capital Contributions for Investments shall thereupon be suspended until reinstated by the written consent or vote of limited partners representing 66-2/3%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds; *provided* that no reinstatement of such obligation shall be effective unless it occurs within six months following the date of such suspension; and *provided, further*, that such suspension shall not apply to any proposed Investment as to which the Partnership has entered into a Legally Binding Agreement prior to the giving of notice of the occurrence of such Material Adverse Event.

(f) Notwithstanding the other provisions of this Section 3.2, the parties hereby agree that (i) no cancellation or suspension of the obligation of any Limited Partner to make Capital Contributions for any Investment provided for in this Section 3.2 shall in any way limit, reduce or relieve any Limited Partner from its obligation to make Capital Contributions for the payment of the Partnership's obligations under any Indebtedness outstanding at the time such cancellation or suspension occurs, which obligation to make Capital Contributions for the

payment of such Indebtedness thereupon shall be absolute and unconditional but shall not exceed such Limited Partner's Unpaid Capital Commitment, (ii) any Limited Partner withdrawing pursuant to Section 8.6 or 8.7 shall not be relieved of its obligation to make Capital Contributions for the payment of the Partnership's obligations under any Indebtedness if such Capital Contributions are due prior to the time such withdrawal occurs, which obligation to make Capital Contributions for the payment of such Indebtedness thereupon shall be absolute and unconditional and (iii) no excuse or exclusion of the obligation of any Limited Partner to make Capital Contributions for any Investment provided for in this Section 3.2 shall in any way limit, reduce or relieve any Limited Partner from its obligation to make Capital Contributions for the payment of the Partnership's obligations under any Indebtedness related to such Investment outstanding at the time any right to make an excuse or exclusion with respect to such Investment expires, which obligation to make Capital Contributions for the payment of such Indebtedness thereupon shall be absolute and unconditional. Nothing in the preceding sentence or Section 4.2(c)(ii) shall affect any such Limited Partner's rights separately to pursue any claims, defenses or setoffs against the Partnership, the General Partner or any other Partner under the terms of this Agreement.

(g) If any Limited Partner is not required to make a Capital Contribution in accordance with paragraphs (b), (c) or this paragraph (g) of this Section 3.2 because such Capital Contribution would be in excess of such Limited Partner's Unpaid Capital Commitment or result in such Limited Partner without its consent making a Capital Contribution for an Investment in excess of 133% of the amount of Capital Contributions originally requested from such Limited Partner in respect of such Investment, then, subject to the provisos set forth in this Section 3.2(g), the General Partner shall send to the other Limited Partners (and to the limited partners of all Parallel Funds) which are not subject to the constraints specified above and which are otherwise able to participate in such Investment an additional Payment Notice providing the amount of any additional Capital Contributions which such other Limited Partners (and limited partners of all Parallel Funds) shall be required to make as a result of such excess not being funded by such Limited Partner. Additional amounts called for pursuant to this Section 3.2(g) shall be made by each such other Limited Partner in an amount which bears the same ratio to the aggregate of the additional amounts payable by all such other Limited Partners as such other Limited Partner's Unpaid Capital Commitment bears to the Unpaid Capital Commitments of all such other Limited Partners; *provided* that no Partner shall be obligated without its consent to contribute an amount in excess of 133% of the amount of Capital Contributions originally requested from such Partner in respect of such Investment; and *provided further* that no Partner shall be obligated to contribute an amount in excess of such Limited Partner's Unpaid Capital Commitment. The provisions of this Section 3.2(g) shall operate successively until either all Limited Partners able to participate in such Investment are subject to the restrictions above or the full amount of Capital Contributions to be made by Limited Partners has been provided for.

(h) For purposes of determining the Unpaid Capital Commitment of a Partner who receives a refund of a Capital Contribution pursuant to this Section 3.2, the amount refunded shall be treated as never having been contributed to the Partnership. If during the period between the contribution and a refund of such amount, the Partners have made Capital Contributions for another Investment or for any other purpose in ratios that were incorrect in light of the preceding sentence, then the General Partner shall require such additional Capital

Contributions, and shall refund such amounts, as are necessary to adjust the Capital Contributions of Partners for such other Investment to the correct ratio.

3.3 Subsequent Closings. (a) *Generally.* The General Partner may, in its sole discretion, admit additional Limited Partners, or permit any existing Limited Partner to increase its Capital Commitment at one or more subsequent closings ("*Subsequent Closings*"); *provided* that no Subsequent Closing shall occur after the Final Closing Date.

(b) *Capital Contributions at Subsequent Closings for Investments.* (i) Subject to Section 3.2, each Partner that is admitted or increases its percentage Capital Commitment at a Subsequent Closing shall (A) make a Capital Contribution to the Partnership (and any alternative investment vehicle formed pursuant to Section 2.11) at such Subsequent Closing equal to the difference between (I) its pro rata share (based upon Partners' Capital Commitments) of the aggregate amount, if any, previously contributed by Partners for the making of any Investment then still held by the Partnership (or, as applicable, any alternative investment vehicle formed pursuant to Section 2.11), and an Additional Amount on each portion of such Capital Contribution relating to a previous contribution from the date of each such previous contribution to such date, prorated based upon the actual number of days elapsed and (II) the amount, if any, of Capital Contributions previously made by such Partner therefor and (B) be deemed to have made a Capital Contribution with respect to each such Investment in an amount equal to the product of (x) a fraction the numerator of which is the aggregate of such Partner's Capital Contributions for all such Investments after giving effect to such admission or increase and the denominator of which is the aggregate amount of all Partners' Capital Contributions for all such Investments after giving effect to such admission or increase and (y) the amount of all Partners' Capital Contributions with respect to such Investment. The General Partner shall distribute the proceeds from such Capital Contributions and Additional Amounts among the Partners that were admitted at prior closings in proportion to the difference between the Capital Contributions which each such Partner has already made for such Investments and such Partner's pro rata share of such amounts after giving effect to such admission or increase and the amount so distributed to each existing Partner (excluding Additional Amounts) shall be added to such existing Partner's Unpaid Capital Commitment. The Additional Amount paid to the Partnership pursuant to this Section 3.3(b) shall be treated solely for purposes of this Agreement as though paid directly to existing Partners by the incoming Partners making such payment.

(ii) Notwithstanding Section 3.3(b)(i) above, if, in the determination of the General Partner in its sole and absolute discretion, a Capital Contribution required to be made by any Partner as determined pursuant to Section 3.3(b)(i) shall provide such Partner with an inaccurate Percentage Interest in the Investments of the Partnership (and any alternative investment vehicle formed pursuant to Section 2.11) because of material changes in the value of such Investments, the General Partner shall inform such Partner prior to the date of its Subsequent Closing of the Capital Contribution that such Partner will instead be required to make at such Subsequent Closing, which shall be determined by the General Partner such that the Capital Account balance of such Partner shall bear the same ratio to the aggregate of the Capital Account balances of all Partners (adjusted to reflect the adjustments to the Carrying Value of the Partnership's assets immediately prior to such Subsequent Closing and the return of Capital Contributions to existing Partners pursuant to this Section 3.3(b)) as the Unpaid Capital Commitment of such

Partner bears to the aggregate of the Unpaid Capital Commitments of all Partners; *provided* that no Partner shall be allowed to acquire an Interest in an existing Investment at any Subsequent Closing at a discount to the original acquisition cost of such Investment unless such action is consented to by a Majority in Interest of the then existing Limited Partners.

(c) (i) *Direct Payments at Subsequent Closing prior to the Initial Investment Date for Partnership Expenses.* Each Partner that is admitted or increases its percentage Capital Commitment at a Subsequent Closing prior to the Initial Investment Date shall make at such Subsequent Closing a Direct Payment in an amount such that such Partner's Direct Payments for Partnership Expenses made prior to such Subsequent Closing, if any, is equal to its Pro Rata Share of all such Direct Payments to be paid by all Partners, plus an Additional Amount thereon from the Initial Payment Date to such date, pro rated based upon the actual number of days elapsed. The General Partner shall distribute the proceeds from such Direct Payment (including Additional Amounts) among the Partners that were admitted at prior closings in proportion to the difference between the Direct Payments which each such Partner has already made for such Partnership Expenses and such Partner's Pro Rata Share of such Partnership Expenses to be paid by all Partners after giving effect to such admission or increase.

(ii) *Capital Contributions at Subsequent Closing on or after the Initial Investment Date for Partnership Expenses.* Each Partner that is admitted or increases its percentage Capital Commitment at a Subsequent Closing on or after the Initial Investment Date shall make at such Subsequent Closing a Capital Contribution in an amount such that such Partner's Capital Contributions and Direct Payments for Partnership Expenses made prior to such Subsequent Closing, if any, is equal to its Pro Rata Share of all such Capital Contributions and Direct Payments to be paid by all Partners; plus an Additional Amount thereon from the Initial Payment Date to such date, pro rated based upon the actual number of days elapsed. The General Partner shall distribute the proceeds from such Capital Contribution (including Additional Amounts) among the Partners that were admitted at prior closings in proportion to the difference between the Capital Contributions and Direct Payments which each such Partner has already made for such Partnership Expenses and such Partner's Pro Rata Share of such Partnership Expenses to be paid by all Partners after giving effect to such admission or increase.

(d) (i) *Direct Payments at Subsequent Closings prior to the Initial Investment Date for Organizational Expenses.* Each Partner that is admitted or increases its percentage Capital Commitment at a Subsequent Closing prior to the Initial Investment Date shall make a Direct Payment to the General Partner at such Subsequent Closing in an amount such that such Partner's Direct Payments for Organizational Expenses is equal to its Pro Rata Share of the Organizational Expenses to be paid by all Partners, plus an Additional Amount thereon from the Initial Payment Date to such date, pro rated based upon the actual number of days elapsed. The General Partner shall distribute the proceeds from such Direct Payment (including Additional Amounts) among the Partners that were admitted at prior closings in proportion to the difference between the Direct Payments which each such Partner has already made for Organizational Expenses and such Partner's Pro Rata Share of Organizational Expenses to be paid by all Partners after giving effect to such admission or increase.

(ii) *Capital Contributions at Subsequent Closings on or after the Initial Investment Date for Organizational Expenses.* Each Partner that is admitted or increases its percentage Capital Commitment at a Subsequent Closing on or after the Initial Investment Date shall make a Capital Contribution to the Partnership at such Subsequent Closing in an amount such that such Partner's Capital Contributions and Direct Payments for Organizational Expenses is equal to its Pro Rata Share of the Organizational Expenses to be paid by all Partners, plus an Additional Amount thereon from the Initial Payment Date to such date, pro rated based upon the actual number of days elapsed. The General Partner shall distribute the proceeds from such Capital Contribution (including Additional Amounts) among the Partners that were admitted at prior closings in proportion to the difference between the Capital Contributions and Direct Payments which each such Partner has already made for Organizational Expenses and such Partner's Pro Rata Share of Organizational Expenses to be paid by all Partners after giving effect to such admission or increase.

(e) (i) *Direct Payments at Subsequent Closings prior to the Initial Investment Date for Management Fee.* Each Limited Partner that is admitted or increases its Capital Commitment at a Subsequent Closing prior to the Initial Investment Date shall make a Direct Payment to the General Partner at such Subsequent Closing for the payment of the Management Fee based upon such Limited Partner's Capital Commitment or increased Capital Commitment, as applicable, with respect to the period from the Initial Closing until the end of the Management Fee period in which such Subsequent Closing occurs (calculated pro-rata for the number of days in such period), plus an Additional Amount thereon from the Initial Payment Date to the date of such Subsequent Closing, pro rated based upon the actual number of days elapsed.

(ii) *Capital Contributions at Subsequent Closings on or after the Initial Investment Date for Management Fee.* Each Limited Partner that is admitted or increases its Capital Commitment at a Subsequent Closing on or after the Initial Investment Date shall make a Capital Contribution to the Partnership at such Subsequent Closing for the payment of the Management Fee based upon such Limited Partner's Capital Commitment or increased Capital Commitment, as applicable, with respect to the period from the Initial Closing until the end of the Management Fee period in which such Subsequent Closing occurs (calculated pro-rata for the number of days in such period), plus an Additional Amount thereon from the Initial Payment Date to the date of such Subsequent Closing, pro rated based upon the actual number of days elapsed.

(f) To the extent that an increase in Capital Commitments and/or the increase in Parallel Fund Capital Commitments resulting from any Subsequent Closing or any closing of a Parallel Fund causes the ratio of Capital Commitments to Parallel Fund Capital Commitments to change, the General Partner in its sole discretion may adjust the percentage interests of each of the Partnership and such Parallel Fund in each Investment to reflect such ratio. In such case, amounts shall be paid to the Partnership or such Parallel Fund, as the case may be, by the other as a result of such adjustment in a manner comparable to the mechanics of this Section 3.3 as applied to the Partnership and such Parallel Fund.

3.4 *Distributions – General Principles.* (a) *Generally.* Except as otherwise expressly provided in this Article III, Article VIII or in Article IX, no Partner shall have the right

to withdraw capital from the Partnership or to receive any distribution or return of its Capital Contribution. Distributions of Partnership assets that are provided for in this Article III, Article VIII or in Article IX shall be made only to persons who, according to the books and records of the Partnership, were the holders of record of Interests in the Partnership on the date determined by the General Partner as of which the Partners are entitled to any such distributions.

(b) *Limitation on Distributions in Kind.* The General Partner shall make distributions in cash rather than in kind; *provided* that distributions may be made in kind in connection with the dissolution and winding up of the Partnership or a withdrawal of a Limited Partner pursuant to Section 8.6 or 8.7. Except as otherwise provided in this Agreement, assets distributed in kind shall be deemed to have been sold for cash for their Fair Market Value determined in accordance with Section 4.7. Upon the making of a distribution in kind, the Capital Accounts of the Partners receiving such distribution shall be reduced by the Fair Market Value of the property distributed and the Capital Accounts of the Partners shall be adjusted to reflect gain or loss deemed to have been realized in respect of the deemed sale.

(c) *Timing and Manner of Distributions.* Distributions of available cash shall be made at the times provided below:

(i) Current Proceeds from an Investment shall be distributed at such times and intervals as the General Partner shall determine, but in no event later than 90 days following the end of the Fiscal Quarter in which such Current Proceeds are received by the Partnership.

(ii) Disposition Proceeds from an Investment shall be distributed as soon as practicable but in any event within forty-five (45) days after the date such Disposition Proceeds are received by the Partnership.

(iii) Temporary Investment Income shall, unless otherwise applied to an Investment, be distributed on an annual basis, but in no event later than 90 days following the end of the Fiscal Year in which such Temporary Investment Income is received by the Partnership, or more often in the sole discretion of the General Partner.

Such distributions shall be made by wire transfer of immediately available funds to the account specified in writing by any Limited Partner to the General Partner.

(d) For all purposes of this Agreement, whenever a portion of an Investment (but not the entire Investment) is the subject of a Disposition, that portion shall be treated as having been a separate Investment from the portion of the Investment that is retained by the Partnership, and prior distributions of Current Proceeds and Capital Contributions for the Investment shall be treated as having been divided between the sold portion and the retained portion on a pro rata basis.

(e) For all purposes of this Agreement, whenever an investment is made in the same type of security of, or other interest in, an entity or asset in which an Investment previously has been made, such subsequent investment shall be treated as a separate Investment from the Investment previously made, and the Capital Contributions for, and Investment Proceeds and Carried Interest proceeds subsequently received from, such entity shall be divided between the

prior investment and the subsequent investment based upon the relative interests acquired by the Partnership in such prior and subsequent investments.

(f) The amount of any taxes allocable to a Partner or withheld from receipts of the Partnership (or any entity in which the Partnership invests that is treated as a flow-through entity for U.S. federal income tax purposes) from an Investment shall be deemed to have been distributed to such Partner as Current Proceeds or Disposition Proceeds to the extent that the payment or withholding of such taxes reduced Current Proceeds or Disposition Proceeds, as the case may be, otherwise distributable to such Partner as provided herein; *provided*, that the General Partner may deem taxes paid by or withheld from receipts of the Partnership (or any entity in which the Partnership invests that is treated as a flow-through entity for U.S. federal income tax purposes) allocable to a Limited Partner exempt from U.S. federal income tax to have been distributed to such Limited Partner as described above only to the extent the General Partner reasonably determines that (i) such Limited Partner is liable for such tax under the laws of the jurisdiction imposing such tax, (ii) the amount of such tax is determined with reference to the status of such Limited Partner or (iii) such Limited Partner incurs items of gross income taken into account for purposes of calculating unrelated business taxable income as defined in Sections 512 and 514 of the Code relating to such Limited Partner's Interest in the Partnership.

3.5 Amounts and Priority of Distributions.

(a) *Distributions of Current Proceeds and Disposition Proceeds from Investments.* Each distribution of Current Proceeds and Disposition Proceeds from an Investment shall initially be made to the Partners in proportion to each of their respective Percentage Interests with respect to such Investment. Notwithstanding the previous sentence, the share of each distribution of Current Proceeds and Disposition Proceeds of each Limited Partner (other than an Excepted JER Investor) from an Investment shall be divided between such Limited Partner on the one hand and the General Partner on the other hand as follows:

(i) *Return of Capital and Costs:* First, 100% to such Limited Partner until such Limited Partner has received cumulative distributions of Investment Proceeds from such Investment and all Realized Investments in an amount equal to:

(A) such Limited Partner's (I) Capital Contributions for such Investment and for all Realized Investments in which such Limited Partner has participated (including any Capital Contributions pursuant to Sections 3.1(a)(i), 3.1(a)(ii), 3.1(a)(iii) and 3.1(a)(v)) and (II) pro rata share of any Indebtedness incurred by the Partnership to make such Realized Investments to the extent such Indebtedness has not been repaid from Investment Proceeds from such Realized Investments or other Investments and may be repaid pursuant to Section 3.1(a)(v);

(B) such Limited Partner's pro rata share of all Net Losses from Writedowns (other than writedowns in respect of such Investment if such Investment is an Unrealized Investment and the writedown with respect to such Unrealized Investment was already recovered pursuant to the preceding clause (A)) of Investments in which such Limited Partner has participated; and

(C) the product of (I) the sum of such Limited Partner's Capital Contributions and Direct Payments for Organizational Expenses, Management Fees, Placement Fees and allocated Partnership Expenses as of such date and (II) a fraction the numerator of which is the sum of such Limited Partner's Capital Contributions for, and Partnership Indebtedness allocated to, all Realized Investments in which such Limited Partner has participated as of such date and such Limited Partner's pro rata share of all Net Losses from Writedowns of Investments in which such Limited Partner has participated as of such date and the denominator of which is the sum of all Partnership Indebtedness allocated to Investments and such Limited Partner's Capital Contributions for all Investments, in each case in which such Limited Partner has participated as of such date (the amounts described in this Section 3.5(a)(i)(A)(I), (B) and (C), such Limited Partner's "*Realized Capital and Costs*"); *provided*, that such numerator and denominator shall not include any Capital Contribution subsequently used to repay Partnership Indebtedness, and *provided further*, that such numerator and denominator shall be reduced by the sum of (a) any Investment Proceeds received by the Limited Partner pursuant to Section 3.5(a)(i)(A) above and (b) any Partnership Indebtedness repaid in both instances in respect of any Investment, within 6 months of the acquisition of an Investment.

(ii) *10% Preferred Return*: Second, 100% to such Limited Partner until (A) such distribution results in such Limited Partner receiving a 10% Preferred Realized Return, (B) such Limited Partner has achieved a 10% Preferred Realized and Unrealized Return and (C) in the case of a distribution of Current Proceeds from an Unrealized Investment, such distribution results in such Limited Partner receiving a 10% Preferred Current Return on such Investment;

(iii) *Recapture of Limited Partner Returns of Distributions*: Third, 100% to such Limited Partner until the excess of (A) the cumulative distributions to such Limited Partner of Investment Proceeds from such Investment and all Realized Investments, over (B) the amount described in Sections 3.5(a)(i) and (ii) above with respect to such Limited Partner, equals the amount of any return of distributions by such Limited Partner of Investment Proceeds from such Investment and all Realized Investments pursuant to Section 5.2(b);

(iv) *Catch-up to 20% Overall Carried Interest*: Fourth, 50% to such Limited Partner and 50% to the General Partner to the extent, if any, necessary so that the cumulative distributions of Carried Interest to the General Partner from such Investment and all Realized Investments with respect to such Limited Partner, equals 20% of the sum of:

(A) the excess of (I) the cumulative distributions to such Limited Partner of Investment Proceeds from such Investment and all Realized Investments over (II) the amount described in Sections 3.5(a)(i) and (iii) above, *plus*

(B) the cumulative distributions of Carried Interest from such Investment and all Realized Investments to the General Partner with respect to such Limited Partner;

provided that if the cumulative distributions of Carried Interest to the General Partner from such Investment and all Realized Investments with respect to such Limited Partner already exceeds 20% of the foregoing sum, then the distribution shall instead be made 100% to such Limited Partner until the cumulative distributions of Carried Interest to the General Partner from such Investment and all Realized Investments with respect to such Limited Partner equals 20% of the foregoing sum; and

(v) *80/20 Split*: Thereafter, 80% to such Limited Partner and 20% to the General Partner.

(b) *Distributions of Temporary Investment Income*: Each distribution of Temporary Investment Income shall be divided among all Partners (including the General Partner) pro rata in proportion to their respective proportionate interests in the Partnership property or funds that produced such Temporary Investment Income, as reasonably determined by the General Partner.

(c) The "*Net Loss from Writedowns*" as of any date means, in respect of the Unrealized Investments for which there are writedowns, the aggregate excess of the Capital Contributions and allocated Partnership Indebtedness directly relating to such Unrealized Investments over their aggregate Fair Market Values as of such date.

3.6 *Escrow Account*. (a) *Establishment of Escrow Account*. The Partnership shall establish an escrow account (the "*Escrow Account*"), with a sub-account for each Limited Partner which is not an Excepted JER Investor. Subject to Section 3.6(b) below, the General Partner shall be required upon its receipt of any Carried Interest with respect to such Limited Partner to deposit into such Limited Partner's sub-account in the Escrow Account an amount equal to 50% of the product of (i) one *minus* the Assumed Income Tax Rate and (ii) amount of such Carried Interest, in order to assure the availability of funds for the potential obligation of the General Partner to pay the amount of any negative balance in its Capital Account pursuant to Section 10.1(b) below.

(b) *Permitted Withdrawals Out of the Escrow Account*. (i) All funds deposited in the Escrow Account shall remain in the Escrow Account and may not be withdrawn by the General Partner except as provided in this Section 3.6(b).

(ii) The General Partner may withdraw from the Escrow Account at any time and from time to time the amount of any interest or other earnings on the funds in the Escrow Account.

(iii) At any time and from time to time following the expiration or termination of the Commitment Period, the General Partner may withdraw from any Limited Partner's sub-account in the Escrow Account any funds therein in excess of an amount equal to 20% of the sum of (A) the amount of such Limited Partner's Unpaid Capital

Commitment at such time, (B) such Limited Partner's Capital Contributions for Investments that have not been the subject of a Disposition as of such time, (C) such Limited Partner's Direct Payments or Capital Contributions for Organizational Expenses, Management Fees, Placement Fees and Partnership Expenses that, in each case, have not been previously recouped by such Limited Partner and (D) such Limited Partner's pro rata share of the aggregate Unrecouped Losses on Realized Investments of Limited Partners other than Excepted JER Investors.

(iv) Any amount remaining in any Limited Partner's sub-account in the Escrow Account after the payment to such Limited Partner of all amounts pursuant to Section 10.1(b) shall be immediately released to the General Partner.

(c) For purposes of calculating distributions and maintaining Capital Accounts, amounts distributed by the Partnership and placed in escrow by the General Partner will be considered distributed to the General Partner and amounts required to be returned to the Partnership shall be considered a contribution to capital by the General Partner.

(d) The Escrow Account shall be invested by the General Partner in Temporary Investments.

(e) If a successor general partner acquires the General Partner's interest in the Partnership pursuant to Section 8.1(e) or 8.1(f), the General Partner shall pay to the Partnership on the date of sale of its interest to the successor general partner pursuant to Section 8.1(e) or 8.1(f), for distribution to the Limited Partners entitled thereto, an amount equal to the aggregate amount that would be payable pursuant to Section 10.1(b) on such date, determined on the assumption that all remaining Investments were sold for their Fair Market Values determined pursuant to Section 4.7 and the proceeds therefrom were distributed to the Partners. The payment of such amount to the Partnership shall constitute full satisfaction by the General Partner of its obligations under this Section 3.6. The obligation of a successor general partner under this Section 3.6 shall be calculated as if the Partnership had made all remaining Investments, at a purchase price equal to their Fair Market Values determined pursuant to Section 4.7, on the date of the successor general partner's admission to the Partnership.

(f) If a Limited Partner withdraws pursuant to Section 8.6 or 8.7, the General Partner shall pay to the Partnership on the date of such withdrawal, for distribution to such Limited Partner, an amount equal to the aggregate amount that would be payable to such Limited Partner pursuant to Section 10.1(b) on such date, determined on the assumption that all remaining Investments were sold for their valuations determined pursuant to Section 4.7 and the proceeds therefrom were distributed to the Partners. The payment of such amount to the Partnership shall constitute full satisfaction by the General Partner of its obligations under this Section 3.6 with respect to such Limited Partner.

ARTICLE IV

The General Partner

4.1 Investment Guidelines. The Partnership and any alternative investment vehicle formed pursuant to Section 2.11 shall make Investments in accordance with the Investment Guidelines. In addition, at such time as any funds of the Partnership are not invested in Investments, distributed to the Partners or applied towards the expenses of the Partnership, the Partnership may invest such funds in Temporary Investments. The foregoing provisions of this Section 4.1 shall be subject to the good faith interpretation of the General Partner.

4.2 Powers of the General Partner. (a) The management, operation and policy of the Partnership shall be vested exclusively in the General Partner, which shall have the power by itself and shall be authorized and empowered on behalf and in the name of the Partnership to carry out any and all of the objects and purposes of the Partnership and to perform all acts and enter into and perform all contracts and other undertakings that it may in its sole discretion deem necessary or advisable or incidental thereto, all in accordance with and subject to the other terms of this Agreement.

(b) Without limiting the foregoing general powers and duties, the General Partner is hereby authorized and empowered on behalf and in the name of the Partnership, or on its own behalf and in its own name, or through agents as may be appropriate, subject to the limitations contained elsewhere in this Agreement, to:

(i) make all decisions concerning the investigation, selection, negotiation, structuring, commitment to, monitoring of and disposition of Investments;

(ii) direct the formulation of investment policies and strategies for the Partnership, and select and approve the investment of Partnership funds, all in accordance with the Investment Guidelines and the other limitations of this Agreement;

(iii) acquire, hold, sell, transfer, exchange, pledge and dispose of Investments, and exercise all rights, powers, privileges and other incidents of ownership or possession with respect to Investments, including the exercise of any voting rights with respect to an Investment, the approval of a restructuring of an Investment, participation in arrangements with creditors, the institution and settlement or compromise of suits and administrative proceedings and other similar matters;

(iv) manage Investments generally, including the owning, holding, financing, managing, servicing, operating, maintaining, improving, developing, rehabilitating, leasing and otherwise dealing with the Investments; selling, exchanging, compromising, collecting, mortgaging or otherwise disposing of all or any portion of the Investments and, in connection therewith, accepting, collecting, holding, selling, exchanging, mortgaging, pledging or otherwise disposing of evidences of Indebtedness or other property received pursuant thereto;

(v) open, maintain and close bank accounts and draw checks or other orders for the payment of money and open, maintain and close brokerage, money market fund and similar accounts;

(vi) hire for usual and customary payments and expenses consultants, brokers, appraisers, attorneys, accountants and such other agents for the Partnership as it may deem necessary or advisable, including for any management, construction, leasing and other property management services, and authorize any such agent to act for and on behalf of the Partnership;

(vii) enter into, execute, maintain and/or terminate contracts, undertakings, agreements and any and all other documents and instruments in the name of the Partnership, and do or perform all such things as may be necessary or advisable in furtherance of the Partnership's powers, objects or purposes or to the conduct of the Partnership's activities, including entering into acquisition agreements to make or dispose of Investments which may include such representations, warranties, covenants, indemnities and guaranties as the General Partner deems necessary or advisable;

(viii) incur Indebtedness and provide indemnities in connection therewith, on a recourse or non-recourse basis, on behalf of the Partnership, either by the Partnership or by an entity in which the Partnership has an interest and, in its discretion, secure any and all of such Indebtedness with the assets of the Partnership or any Investment or any investment vehicle in which the Partnership invests, including the Unpaid Capital Commitments of the Limited Partners, and may assign the Partnership's rights to deliver Payment Notices to the Limited Partners and to receive Capital Contributions from Limited Partners;

(ix) act as the "tax matters partner" under the Code and in any similar capacity under state, local or non-U.S. law; and

(x) make, in its sole discretion, any and all elections for Federal, state, local and non-U.S. tax matters, including any election to adjust the basis of Partnership property pursuant to Sections 734(b), 743(b) and 754 of the Code or comparable provisions of state, local or non-U.S. law.

(c) *Borrowing and Guarantees.* (i) The General Partner shall have the right, at its option, to cause the Partnership or an Investment entity to incur or assume Indebtedness from any Person at any time and for any purpose including to cover Partnership Expenses, make Investments, provide permanent financing or provide interim financing to the extent necessary to consummate the purchase of Investments prior to completion of the permanent debt financing therefor or prior to the receipt of Capital Contributions; *provided* that the average sum of the Indebtedness of the Partnership and the Partnership's pro rata share of Indebtedness of all Investment entities for the last six months of each year, beginning with the year commencing on the Final Closing Date, shall not exceed 75% of the Partnership's pro rata share of the greater of the cost of the underlying assets acquired in connection with such Investments or the value (as determined in good faith by the General Partner) of such Investments; except that a breach of this 4.2(c)(i) shall not be deemed to have occurred solely by reason of the existence or incurrence of

Indebtedness at the underlying asset level if the General Partner does not possess the power to control the decision to assume or incur Indebtedness at such level and if the General Partner has used all commercially reasonable efforts to repay, retire or otherwise reduce any other Indebtedness for such Investments in order to comply with the foregoing 75% restriction; *provided further*, that no such 75% limitation shall be applicable during the 12-month period after the Initial Closing. For the avoidance of doubt, neither (a) Indebtedness extended by the Partnership and the Parallel Funds to entities in which Investments are made nor (b) any Indebtedness incurred pursuant to an Investor Note Facility shall be treated as Indebtedness for the foregoing purposes. The General Partner shall give the Limited Partners prompt notice of any Indebtedness incurred by the Partnership which the General Partner intends to repay by a drawdown pursuant to Section 3.1(a)(v), which notice shall include the General Partner's estimate of the amount of the Partnership's potential liability thereunder and the final maturity thereof.

(ii) The General Partner shall have the right at its option to make a collateral assignment of the obligations of the Partners to make Capital Contributions pursuant to which each Limited Partner shall upon the written request from the General Partner, for the benefit of one or more lenders or other Persons extending credit to the Partnership (an "*Investor Note Facility*"), (A) execute and deliver an instrument in writing (an "*Investor Consent*") which shall, among other things, (I) acknowledge its obligations pursuant to this Agreement to make Capital Contributions, which may, as determined by the General Partner, include an acknowledgment that the General Partner, or the lender on behalf of the General Partner if the Partnership is in default of its payment obligations (in accordance with the agreements between such lender and the Partnership and/or the General Partner), may call such Capital Contributions in accordance with this Agreement to pay the outstanding obligations to such lenders without defense, counterclaim or offset of any kind; *provided* that the liability of the Limited Partners to make Capital Contributions shall not be increased thereby and shall not result in the loss of a Limited Partner's limited liability status under this Agreement, (II) acknowledge that the provisions of this Agreement relating to the making of Capital Contributions and the incurrence of Indebtedness may not be modified without the consent of such lender, (III) acknowledge that all Capital Contributions shall be made to an account specified in such Investor Consent, (IV) contain such Limited Partner's agreement to provide such financial information to such lender regarding such Limited Partner as is generally made available to unaffiliated lenders to such Limited Partner, (V) acknowledge and consent to personal jurisdiction in the State of New York and (VI) acknowledge its obligation to obtain an Investor Consent from any purchaser or assignee of such Limited Partner's Interest prior to any transfer and (B) execute such documents as may be reasonably required to create a security interest in its obligations so to make such Capital Contributions, which the General Partner may perfect and assign for the benefit of a lender as determined by the General Partner in its sole discretion.

(iii) Notwithstanding anything herein to the contrary, the General Partner shall have the right to agree (i) to subordinate payments to the Limited Partners hereunder to payments required under any Indebtedness and (ii) that, during the term of any Indebtedness, the Partnership will not initiate bankruptcy, insolvency, liquidation,

reorganization, dissolution proceedings or any analogous proceedings without the consent of the lender.

4.3 Limitation on Liability. (a) The General Partner shall be subject to all of the liabilities of a general partner in a partnership without limited partners; *provided that*, to the fullest extent permitted by law, none of the General Partner and its Affiliates (excluding any Parallel Fund, any Predecessor Fund, any Co-Investment Fund, any Mexican Fund, any JER CMBS Fund or any Successor Fund), nor their respective partners, officers, members, shareholders, directors and employees and any other person who serves at the request of the General Partner on behalf of the Partnership as an officer, director, partner or employee of any other entity (each, an "*Indemnified Party*"), shall be liable to the Partnership or to any Limited Partner for (i) any act or omission taken or suffered by such Indemnified Party in connection with the conduct of the affairs of the Partnership or otherwise in connection with this Agreement or the matters contemplated herein, unless such act or omission resulted from fraud, willful misconduct or gross negligence by such Indemnified Party or (ii) any mistake, negligence, dishonesty or bad faith of any broker or other agent of the Partnership unless such Indemnified Party was responsible for the selection or monitoring of such broker or agent and acted in such capacity with gross negligence, in each case if such Indemnified Party acted in good faith and, as to matters on behalf of the Partnership, in a manner reasonably believed to be in, and as to other matters, in a manner reasonably believed to be not opposed to, the best interests of the Partnership. However, no Indemnified Party shall be relieved of liability to the Partnership or any Limited Partner for any loss, claim, damage, expense, or liability attributable to the following: (A) any action or omission by such Indemnified Party which (I) was not consistent with its fiduciary duties of loyalty, good faith and fair dealing owed to the Partnership and the Limited Partners and the General Partner's duties under this Agreement, or (II) was outside the scope of authority granted to the General Partner by this Agreement; (B) any intentional and material breach of this Agreement or violation of securities laws by such Indemnified Party; or (C) fraud, willful misconduct, bad faith, gross negligence or reckless disregard on the part of the Indemnified Party in connection with the business of the Partnership.

(b) To the extent that, at law or in equity, the General Partner has duties (including fiduciary duties) and liabilities relating thereto to the Partnership or to another Partner, the General Partner acting under this Agreement shall not be liable to the Partnership or to any such other Partner for its good faith reliance on the provisions of this Agreement. The provisions of this Agreement, to the extent that they expand or restrict the duties and liabilities of the General Partner otherwise existing at law or in equity, are agreed by the Partners to modify to that extent such other duties and liabilities of the General Partner.

(c) The General Partner may, in its discretion, cause the Partnership to purchase, at the Partnership's expense, insurance to insure the General Partner or any other Indemnified Party against liability for any breach of their fiduciary responsibilities.

4.4 Indemnification. (a) Subject to the proviso contained in Section 3.1(a)(iv), to the fullest extent permitted by law, the Partnership shall indemnify and save harmless each of the Indemnified Parties from and against any and all claims, liabilities, damages, losses, costs and expenses (including amounts paid in satisfaction of judgments, in compromises and settlements, as fines and penalties and legal or other costs and reasonable expenses of

investigating or defending against any claim or alleged claim) of any nature whatsoever, known or unknown, liquidated or unliquidated, that are incurred by any Indemnified Party and arise out of or in connection with the affairs of the Partnership or any alternative investment structure through which Investments are made, including acting as a director or the equivalent of any entity in which an Investment is made during the period of time in which the Partnership holds such Investment, or the performance by such Indemnified Party of any of the General Partner's responsibilities hereunder or otherwise in connection with the matters contemplated herein; *provided that:*

(i) an Indemnified Party shall be entitled to indemnification hereunder only to the extent that (A) such Indemnified Party's conduct did not constitute fraud, willful misconduct, gross negligence, bad faith or an intentional and material breach of this Agreement or violation of securities laws and (B) such an Indemnified Party acted in good faith, and, as to matters on behalf of the Partnership, in a manner reasonably believed to be in, and, as to other matters, in a manner reasonably believed to be not opposed to, the best interests of the Partnership;

(ii) an Indemnified Party shall not be entitled to indemnification hereunder for any loss, claim, damage, expense or liability attributable to the following: (A) any action or omission or taken by the Indemnified Party (I) which was not consistent with its fiduciary duties of loyalty, good faith and fair dealing owed to the Partnership and the Limited Partners and the General Partner's duties under this Agreement, or (II) was outside the scope of authority granted to the General Partner by this Agreement; (B) any intentional and material breach of this Agreement by such Indemnified Party; (C) fraud, willful misconduct, bad faith, gross negligence, or reckless disregard on the part of the Indemnified Party in connection with the business of the Partnership; or (D) where such Indemnified Party is a plaintiff unless such action is to establish rights to receive indemnification and the Indemnified Party prevails in such action;

(iii) the Partnership's obligations hereunder shall not apply with respect to (x) economic losses or tax obligations incurred by the General Partner or any of its direct or indirect beneficial owners as a result of its owning an interest in the Partnership or in Investments or (y) General Partner Expenses; and

(iv) no Limited Partner shall be responsible for the Partnership's obligations pursuant to this Section 4.4(a) to the extent that the costs incurred in fulfilling such obligation relate to Investments in which such Limited Partner did not participate.

The satisfaction of any indemnification and any saving harmless pursuant to this Section 4.4(a) shall be from and limited to Partnership assets, and no Partner shall have any personal liability on account thereof.

(b) Other than with respect to expenses incurred by an Indemnified Party in connection with an action brought by a Majority in Interest of the Limited Partners against such Indemnified Party, expenses reasonably incurred by an Indemnified Party in defense or settlement of any claim that may be subject to a right of indemnification hereunder shall be advanced by the Partnership prior to the final disposition thereof upon receipt of an undertaking

by or on behalf of the Indemnified Party to repay such amount to the extent that it shall be determined ultimately that such Indemnified Party is not entitled to be indemnified hereunder. No advances shall be made by the Partnership under this Section 4.4(b) without the prior written approval of the General Partner. The Investor Advisory Committee shall be given notice of the advancement of expenses in connection of any claim in excess of \$25,000.

(c) The right of any Indemnified Party to the indemnification provided herein shall be cumulative of, and in addition to, any and all rights to which such Indemnified Party may otherwise be entitled by contract or as a matter of law or equity and shall extend to such Indemnified Party's successors, assigns and legal representatives.

(d) Any Person entitled to indemnification from the Partnership hereunder shall first seek recovery under any other indemnity or any insurance policies by which such Person is indemnified or covered, as the case may be, but only to the extent that the indemnitor with respect to such indemnity or the insurer with respect to such insurance policy provides (or acknowledges its obligation to provide) such indemnity or coverage on a timely basis, as the case may be, and, if such Person is other than the General Partner, such Person shall obtain the written consent of the General Partner prior to entering into any compromise or settlement which would result in an obligation of the Partnership to indemnify such Person; and if liabilities arise out of the conduct of the affairs of the Partnership and any other Person (including any Parallel Fund) for which the Person entitled to indemnification from the Partnership hereunder was then acting in a similar capacity, the amount of the indemnification provided by the Partnership shall be limited to the Partnership's proportionate share thereof as determined in good faith by the General Partner in light of its fiduciary duties to the Partnership and the Limited Partners.

4.5 *General Partner as Limited Partner.* The General Partner shall also be a Limited Partner to the extent that it acquires an Interest as a Limited Partner, and to such extent shall be treated as a Limited Partner in all respects except that the General Partner in such capacity shall not be subject to the Carried Interest. Any Interest of a Limited Partner which is held by the General Partner or any of its Affiliates shall be deemed to have been voted and/or abstained in the same manner and proportions as the aggregate Interests of the other Limited Partners are voted and/or abstained.

4.6 *Other Activities.* (a) *Restriction on Successor Fund.* Without the consent of limited partners representing at least 80%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds, neither JER, the General Partner nor any of their respective Affiliates shall close on another pooled investment fund (a "Successor Fund") with objectives substantially similar to those of the Partnership (other than a Co-Investment Fund, any Parallel Fund, any Predecessor Fund, the JER CMBS Fund or the Mexican Fund) for which any of them, directly or indirectly, acts as manager or the primary source of transactions until the earlier of (i) the expiration or termination of the Commitment Period and (ii) such time as 75% of the Capital Commitments have been invested in, or called for contribution for investment in, or otherwise committed for pursuant to a letter of intent, written agreement in principle or written definitive agreement, Investments. If a Successor Fund is organized after 75% of the aggregate Capital Commitments are invested in, or called for contribution for investment in, or otherwise committed for, Investments, then until the expiration or termination of the Commitment Period or Full Investment, a Successor Fund may not make

investments, unless the investment by the Partnership is legally or contractually prohibited or, as a result of the application of any law, regulation or governmental order could have a material adverse effect on the Partnership or the General Partner or any of its Affiliates.

(b) *Restrictions on Principal Transactions.* Without the consent of the Investor Advisory Committee or limited partners representing 66-2/3%, in the aggregate, of the Interests of Limited Partners and the interests of limited partners of the Parallel Funds, the Partnership shall not invest in (other than as a Follow-On Investment in an existing Investment or investments made pursuant to Section 4.6(c)(vi)), acquire investments from, or sell investments to, JER, the General Partner, any Parallel Fund or Co-Investment Fund (except pursuant to Section 3.3(f) and except for Investments made by the Partnership in investments made by JER Europe Fund II prior to the Initial Closing), any of their respective Affiliates, any Successor Fund or any entity in which any of the foregoing holds a material investment or is in a position of control.

(c) *Restrictions on Investments Away from the Partnership.* Without the consent of limited partners representing at least 66 2/3%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds, and except as provided in Section 4.6(a), none of JER, the General Partner, or any of their respective Affiliates shall invest outside of the Partnership and any Parallel Fund in any investments that are substantially similar to the types of investments to be made by the Partnership (it being understood that such substantially similar investments shall not include any type of investment which the Partnership is restricted from making pursuant to the investment restrictions set forth in Annex B) until the earlier of the expiration or termination of the Commitment Period or Full Investment; *provided* that this Section 4.6(c) shall not apply to:

- (i) investments the acquisition cost of which individually do not exceed \$1,000,000;
- (ii) any activities permitted by Section 5.3;
- (iii) acquisitions of or investments in real estate operating businesses primarily engaged in asset management, special servicing, loan servicing, tax lien servicing, debt collection, underwriting or due diligence services or other similar services, property management, leasing and development services and securities investment management;
- (iv) investments by a Co-Investment Fund in accordance with Section 4.6(d);
- (v) investments which a Predecessor Fund, JER CMBS Fund or Mexican Fund is permitted to make under its governing documents; and
- (vi) additional investments relating to investments by JER and its Affiliates made prior to the formation of the Partnership if, after giving effect to such additional investment, the percentage ownership in such investment by JER and its Affiliates is not increased; *provided* that if JER has the option of increasing the percentage ownership in such an investment of JER and its Affiliates, the portion of the additional investment attributable to the increase in percentage ownership of JER and its Affiliates, to the extent not made by a Predecessor Fund, must be made through the Partnership and the Parallel

Funds on the same terms and conditions as the additional investment made by JER and its Affiliates outside the Partnership and the Parallel Funds.

(d) *Co-Investment Funds.* Until the earlier of the expiration or termination of the Commitment Period or Full Investment, a Co-Investment Fund relating to a Covered Region, the Partnership and the Parallel Funds shall co-invest in each investment located in such Covered Region in which any of them invests, with such investment being allocated among the Partnership, the Parallel Funds and such Co-Investment Fund based on their respective Capital Available for Covered Region Investment at the time of investment (or, in the case of investments made by JER Europe Fund II prior to the Initial Closing, on the date of the Initial Closing); provided that the Partnership and the Parallel Funds shall not be required to invest in any such investment if the General Partner determines in good faith not to make such Covered Region Investment; *provided, further* that if the Partnership and the Parallel Funds elect to invest in investments made by JER Europe Fund II, (i) in the case of investments made by JER Europe Fund II prior to the Initial Closing, such allocation shall occur only once upon the Initial Closing, and (ii) in the case of investments made by JER Europe Fund II on or after the Initial Closing, such allocation shall occur only at the time an investment is acquired by both JER Europe Fund II and the Partnership and the Parallel Funds, and subsequent closings of the Partnership, any Parallel Funds or JER Europe Fund II shall not result in any further adjustment in the allocation with respect to such investments.

(e) *Time Commitment of Certain Key Persons.* Until the earlier of the termination of the Commitment Period or Full Investment, (i) Joseph E. Robert, Jr. shall devote approximately 80% of his business time and attention to the Partnership, its Investments, the Predecessor Funds, the Co-Investment Funds, the JER CMBS Fund and the Mexican Fund and (ii) Deborah L. Harmon shall devote substantially all of her business time and attention to the Partnership, its Investments, the Predecessor Funds, the Co-Investment Funds, the JER CMBS Funds and the Mexican Fund; *provided* that each of the foregoing persons may devote up to 20% of his or her business time and attention to (A) other investments made by JER and its Affiliates prior to the Initial Closing and on JER's existing or future real estate operating businesses (which include asset management, special servicing, loan servicing, underwriting and due diligence services and other services) and (B) activities permitted by Section 4.6(a) hereof, and any time so spent with respect to (A) and (B) above shall be excluded for purposes of determining compliance with the foregoing time commitments.

(f) *Transactions with Affiliates on Arm's-Length Terms.* Apart from transactions the terms of which are expressly contemplated or approved by the terms of this Agreement, the General Partner, JER and its Affiliates shall not engage in any transaction with the Partnership or any entity in which an Investment has been made unless the terms of the transaction are on terms which are no less favorable to the Partnership or such entity than would be obtained in a transaction with an unaffiliated party. The General Partner shall give notice to the Investor Advisory Committee of all material transactions and agreements between the General Partner, JER and its Affiliates on the one hand and the Partnership or any entity in which an Investment has been made on the other, and the Investor Advisory Committee may object to the terms of any such transaction by written notice to the General Partner; *provided* that any transaction all of the material terms of which are disclosed to the Investor Advisory Committee shall be conclusively

deemed to be in compliance with this Section 4.6(f) unless the Investor Advisory Committee votes to disapprove of such transaction within 60 days after such disclosure.

(g) Except as provided in Sections 4.6(a)-(f) above, this Agreement shall not be construed in any manner to preclude JER and the General Partner or any of their Affiliates from engaging in any activity whatsoever permitted by applicable law.

4.7 Valuation. (a) All determinations of Fair Market Value to be made hereunder shall be made pursuant to the terms of this Section 4.7. For all purposes of this Agreement, all determinations of Fair Market Value which have been made in accordance with the terms of this Section 4.7 shall be final and conclusive on the Partnership and all Partners, their successors and assigns.

(b) The Fair Market Value of securities which are Marketable Securities shall equal (A) in the case of securities which are primarily traded on a securities exchange, the average of their last sale prices on such securities exchange on each trading day during the ten trading day period ending immediately prior to the date of the determination, or if no sales occurred on any such day, the closing "bid" price on such day, (B) if the principal market for such securities is, or is deemed to be, in the over-the-counter market, the average of their closing sale prices on each trading day during the ten trading day period ending immediately prior to the date of the determination, as published by the National Association of Securities Dealers Automated Quotation System or similar organization, or if such price is not so published on any such day, the closing "bid" price, if available, on any such day, which prices may be obtained from any reputable pricing service, broker or dealer, and (C) if such securities are traded on PORTAL, the fair market value of such securities by security as reasonably determined by the General Partner based upon third party bid pricing information.

(c) The Fair Market Value of any Investments or of property received in exchange for any Investments which are not Marketable Securities shall be calculated not less than annually and shall initially be determined by the General Partner, who shall promptly supply the Investor Advisory Committee with such valuations and the General Partner's basis therefor. If the Investor Advisory Committee objects in writing (which objection must be within 30 days of any notice of such valuation), and the General Partner and the Investor Advisory Committee are unable to agree upon a mutually acceptable valuation within 30 days after such objection is made, the General Partner shall (at the Partnership's expense) cause an independent appraiser or other valuation expert mutually acceptable to the General Partner and the Investor Advisory Committee to make a valuation, and such appraiser's or expert's determination of such valuation shall be binding on all parties.

4.8 ERISA Covenants. (a) For so long as there is any Limited Partner which is an ERISA Partner, the General Partner shall use its reasonable best efforts at all times to conduct the affairs of the Partnership such that the assets of the Partnership do not constitute plan assets of any such ERISA Partner pursuant to the Plan Asset Regulations. In the event that the General Partner becomes aware that the assets of the Partnership are, at any point, considered to be plan assets, the General Partner shall, as promptly as is reasonably practicable, supply each ERISA Partner upon request with information necessary for such ERISA Partner to comply with the provisions of Department of Labor Regulation Section 2520.103-12.

(b) The Partnership shall annually provide a certificate to each ERISA Partner stating whether or not the Partnership satisfies the statement set forth in Section 4.8(a) above and including a reasonable level of detail regarding the basis for the conclusion set forth therein; *provided*, that no Person shall have any liability to any Limited Partner with respect to the delivery of such certificate if such certificate was prepared and delivered in good faith and on a reasonable basis. The General Partner's obligation to deliver such certificate shall terminate upon the commencement of the "distribution period" as provided in section 2510.3-101(d)(2)(ii) of the Plan Asset Regulations.

4.9 Prohibited Actions. Notwithstanding anything herein to the contrary, the General Partner shall not, without the approval, written consent, or ratification of the specific act by all of the Limited Partners pursuant to a writing executed by the Limited Partners, do any of the following:

(a) conduct the operations of the Partnership in a manner inconsistent with the provisions of this Agreement or with the General Partner's fiduciary duties of loyalty, good faith and fair dealing;

(b) perform any act in contravention of this Agreement or the Certificate of Limited Partnership;

(c) perform any act which would make it impossible to carry on the ordinary operations of the Partnership, except as otherwise provided in this Agreement;

(d) incur indebtedness for borrowed money on behalf of the Partnership except as provided in this Agreement;

(e) possess Partnership property, or assign any rights in specific Partnership property, other than for a Partnership purpose;

(f) admit a person as a Partner, except as otherwise provided in this Agreement;

(g) amend this Agreement, except as otherwise provided herein;

(h) transfer its interest as General Partner of the Partnership, except as otherwise provided herein; or

(i) borrow from the Partnership or allow the Partnership to guarantee any obligation of the General Partner.

4.10 Miscellaneous Covenants. (a) During the term of the Partnership, the General Partner shall notify each Limited Partner of any assignment, withdrawal or substitution, whether required or elective, by a Limited Partner pursuant to Article VIII and shall notify each Limited Partner of any assignment, withdrawal or substitution, whether required or elective, by a limited partner of any Parallel Fund or any alternative investment vehicle.

(b) During the term of the Partnership, the General Partner shall make no election for the Partnership to be excluded from the provisions of Subchapter K of the Code.

ARTICLE V

The Limited Partners

5.1 *Management.* (a) Except as expressly provided in this Agreement, no Limited Partner shall have the right or power to participate in the management or affairs of the Partnership, nor shall any Limited Partner have the power to sign for or bind the Partnership. The exercise by any Limited Partner of any right conferred herein shall not be construed to constitute participation by such Limited Partner in the control of the business of the Partnership so as to make such Limited Partner liable as a general partner for the debts and obligations of the Partnership for purposes of the Act. To the fullest extent permitted by law, Limited Partners as such shall owe no fiduciary duties to the General Partner nor to any other Limited Partner with respect to the Partnership; provided that notwithstanding the foregoing, Limited Partners shall continue to be subject to the duties and obligations expressly set forth under this Agreement.

(b) Any Limited Partner may, upon notice to the General Partner, elect to hold all or any fraction of such Limited Partner's Interest as a non-voting Interest, in which case such Limited Partner shall not be entitled to participate in any consent of the Limited Partners with respect to the portion of its Interest which is held as a non-voting Interest (and such non-voting Interest shall not be counted in determining the giving or withholding of any such consent). Except as provided in this Section 5.1, an Interest held as a non-voting Interest shall be identical in all regards to all other Interests held by Limited Partners. Any such election shall be irrevocable and shall bind the assignees of such Limited Partner's Interest; *provided* that any such election by a Limited Partner that is a bank holding company, as defined in Section 2(a) of the Bank Holding Company Act of 1956; as amended, or a non-bank subsidiary of such bank holding company (each, a "BHC Partner"), shall be irrevocable and shall bind the assignees of such BHC Partner's Interest.

(c) Any Interest held for its own account by a BHC Partner that is determined initially at the time of admission of that Limited Partner, the withdrawal of another Limited Partner or any other event resulting in an adjustment in the relative Interests of the Limited Partners hereunder to be in excess of 4.99% of the Interests of the Limited Partners, excluding for purposes of calculating this percentage portions of any other interests that are non-voting Interests pursuant to this Section 5.1 or any other Section of this Agreement (collectively the "Non-Voting Interests"), shall be a non-voting Interest (whether or not subsequently transferred in whole or in part to any other person) and shall not be included in determining whether the requisite percentage in Interest of the Limited Partners have consented to, approved, adopted or taken any action hereunder, *provided* that such Non-Voting Interest shall be permitted to vote on any proposal to continue the business of the Partnership following a Disabling Event under Section 9.1(b) but not on the approval of a successor general partner under Section 8.1(b), 8.1(d), 8.1(b), 8.1(d) or Section 9.1(b). Each BHC Partner hereby irrevocably waives its corresponding right to vote its Non-Voting Interest in respect of a successor general partner under Section 17-801 of the Act, which waiver shall be binding upon such BHC Partner and any entity which succeeds to its Interest. Upon any Subsequent Closing or a withdrawal of a Limited Partner or

any other event resulting in an adjustment in the relative Interests of the Limited Partners hereunder, a recalculation of the Interests held by all BHC Partners shall be made, and only that portion of the total Interest held by each BHC Partner that is determined as of the applicable Subsequent Closing Date or the date of such withdrawal, as applicable, to be in excess of 4.99% of the Interests of the Limited Partners, excluding Non-Voting Interests as of such date, shall be a Non-Voting Interest. Notwithstanding the foregoing, any BHC Partner may elect not to be governed by this Section 5.1(c) by providing written notice to the General Partner stating that, as a result of a change in law or regulation applicable to such BHC Partner, such BHC Partner is no longer prohibited from acquiring or controlling more than 4.99% of the voting Interests held by the Limited Partners, in which case the amount of the Interests held by such electing BHC Partner specified in such notice to be subject to this Section 5.1(c) shall continue to be Non-Voting Interests. Any such election by a BHC Partner may be rescinded at any time by written notice to the General Partner, provided that any such rescission shall be irrevocable.

5.2 Liabilities of the Limited Partners. (a) Except as provided by the Act or other applicable law and subject to the obligations to make Capital Contributions and Direct Payments pursuant to Article III, and to indemnify the Partnership and the General Partner as provided in Section 10.6, no Limited Partner shall have any personal liability whatsoever in its capacity as a Limited Partner, whether to the Partnership, to any of the Partners, or to the creditors of the Partnership, for the debts, liabilities, contracts, or other obligations of the Partnership or for any losses of the Partnership.

(b) Except as required by the Act or other applicable law, no Limited Partner shall be required to repay to the Partnership, any Partner or any creditor of the Partnership all or any part of the distributions made to such Limited Partner pursuant to Article III hereof.

(c) In the case of any Limited Partner which is an agency or instrumentality of a state, if a provision of this Agreement is inconsistent with limitations under the laws of such state on such Limited Partner's power or authority to make indemnity payments, then such Limited Partner and the General Partner shall enter into alternative arrangements consistent with such limitations regarding such provision so that the economic benefits of the Partnership to such Limited Partner are not materially more favorable to such Limited Partner than the economic benefits received or to be received by Limited Partners generally (as determined by the General Partner in good faith).

5.3 Limited Partners' Outside Activities. (a) Subject to Section 4.6 with respect to Limited Partners that are affiliated with the General Partner, a Limited Partner shall be entitled to and may have business interests and engage in activities in addition to those relating to the Partnership, including business interests and activities in direct competition with the Partnership and the entities in which the Partnership invests and may engage in transactions with, and provide services to, the Partnership or any such entity. Neither the Partnership, any other Partner nor any other Person shall have any rights by virtue of its participation in the Partnership in any business ventures of any Limited Partner.

(b) Except with respect to co-investments made with JER Europe Fund II, the JER CMBS Fund or the Mexican Fund, where the General Partner in good faith believes that co-investment opportunities within the scope of the Partnership's investment objectives and

policies are available and appropriate in the context of the Partnership's Investments, the General Partner will give certain Persons (other than the General Partner and its Affiliates and employees), including Limited Partners or third parties, an opportunity to co-invest in such opportunities (an "*Optional Co-investment Opportunity*"); provided that:

(i) if any Optional Co-Investment Opportunity is provided to one or more Limited Partners and limited partners of any Parallel Fund, the Optional Co-Investment Opportunity not offered to third parties shall be offered to each Limited Partner or limited partner of a Parallel Fund with a Capital Commitment or a capital commitment to a Parallel Fund of at least \$15 million pro rata based on their respective Capital Commitments or capital commitments to a Parallel Fund, and the terms and conditions of such Optional Co-Investment Opportunity (including with respect to notice and timing of capital calls) will be in the sole and absolute discretion of the General Partner (it being understood that the General Partner is under no obligation to reoffer to Limited Partners who elect to participate in any such Optional Co-Investment Opportunity any share thereof not subscribed by other Limited Partners or limited partners of any Parallel Fund);

(ii) unless the Partnership has achieved Full Investment or the Partnership is otherwise restricted or precluded from such investment or portion thereof, with respect to any Optional Co-Investment Opportunity offered to third parties, if the General Partner or any Affiliate thereof shall receive investment management fees, carried interest or incentive fees and/or fees for other services which in the aggregate exceed the aggregate Management Fee, Carried Interest and the market rate fees for other services provided for pursuant to this Agreement that would have been borne by the Partnership and the Parallel Funds if the Partnership and the Parallel Funds had made the investment represented by the Optional Co-Investment Opportunity, the amount of such excess fees (the "*Excess Fees*") shall constitute Designated Fees; and

(iii) the General Partner and its Affiliates shall not directly or indirectly invest in such Co-Investment Opportunity except in the minimum amount, if any, necessary in the opinion of counsel to the General Partner for any carried interest therein to be treated as a profit allocation to a partner for U.S. federal income tax purposes.

5.4 Investor Advisory Committee. (a) The General Partner shall select a committee (the "*Investor Advisory Committee*"), which shall be a committee consisting of a number of Limited Partners and limited partners of any Parallel Fund or their representatives or designees which, except as a result of a vacancy upon resignation or removal, shall be not less than three (3) and no more than seven (7); provided that (i) no member of the Investor Advisory Committee shall be an Affiliate of the General Partner (or a designee or representative thereof), (ii) each Limited Partner with a Capital Commitment equal to 20% or more of the aggregate Capital Commitments and the aggregate Parallel Fund Capital Commitments shall have the right to name one appointee to the Investor Advisory Committee, (iii) a majority of the appointees to the Investor Advisory Committee shall consist of representatives of Limited Partners each of which have Capital Commitments of at least \$20,000,000 and (iv) the General Partner may appoint additional non-voting members of the Investor Advisory Committee who shall have the right to attend and speak at meetings and receive all information provided to voting members.

The Investor Advisory Committee shall (i) review valuations made by the General Partner of Investments for the purpose of determining (A) writedowns, if any, relating to Investments for use in calculating distributions in accordance with Section 3.5 hereof and (B) Fair Market Value in accordance with Section 4.7(b) hereof for any purpose under this Agreement, (ii) review and approve or disapprove any potential conflicts of interest in any transaction or relationship between the Partnership and the General Partner or any employee or Affiliate thereof that are presented to the Investor Advisory Committee, (iii) approve transactions pursuant to Section 4.6(b) and disapprove of transactions and agreements pursuant to Section 4.6(f), (iv) review the adequacy of the General Partner's reserves for liabilities of the Partnership, (v) be responsible for approving extensions of the term of the Partnership and (vi) taking any other action set forth herein to be taken by it.

(b) Except as otherwise provided herein, the Investor Advisory Committee shall act by a majority of its voting members.

(c) The quorum for a meeting of the Investor Advisory Committee shall be a majority of its voting members. Members of the Investor Advisory Committee may participate in a meeting of the Investor Advisory Committee by means of conference telephone or video conferencing by means of which all persons participating in the meeting can hear and be heard. Any member of the Investor Advisory Committee who is unable to attend a meeting of the Investor Advisory Committee may (i) in the case of a voting member, grant in writing to another member of the Investor Advisory Committee or any other Person such member's proxy to vote on any matter upon which action is taken at such meeting and (ii) designate in writing to the General Partner an alternate to observe, but not vote on any matter acted upon at such meeting (unless such alternate is also granted a proxy pursuant to the preceding clause (i)). Any voting member of the Investor Advisory Committee may call a meeting of the Investor Advisory Committee and may waive notice of any meeting before or after a meeting is held. Written consents of the voting members of the Investor Advisory Committee will be effective as to any matter upon the same vote as would be effective at a meeting. Written notice of any action taken by the Investor Advisory Committee promptly will be given to all Limited Partners and all meetings will be held within the 48 contiguous United States. The Investor Advisory Committee shall conduct its business by such other procedures as a majority of its voting members consider appropriate.

(d) No fees shall be paid by the Partnership to members of the Investor Advisory Committee, but the members of the Investor Advisory Committee shall be reimbursed by the Partnership for all reasonable expenses incurred in attending meetings of the Investor Advisory Committee which are not concurrent with the annual meeting of the Partnership pursuant to Section 7.4(a).

(e) Any member of the Investor Advisory Committee may resign upon delivery of written notice from such member to the General Partner, and shall be deemed removed if the Limited Partner that the member represents requests such removal in writing to the General Partner or becomes a Defaulting Limited Partner. Limited Partners, together with limited partners of all Parallel Funds, holding 66-2/3%, in the aggregate, of the Interests and the interests of the Parallel Funds may at any time require the removal, effective as of a date not less than 15 days from the date of notice to such member of the Investor Advisory Committee of such

removal, of the member of the Investor Advisory Committee from the Investor Advisory Committee. Any vacancy in the Investor Advisory Committee, whether created by such a resignation or removal for Cause or by the death of any member, shall promptly be filled as provided in Section 5.4(a).

(f) No member of the Investor Advisory Committee shall be liable to any other Partner or the Partnership for any reason (other than fraud or willful misconduct on the part of such member) including for any mistake in judgment, any action or inaction taken or omitted to be taken, or for any loss due to any mistake, action or inaction. Neither the members of the Investor Advisory Committee, nor the Limited Partners on behalf of whom such members act as representatives, shall owe any duties (fiduciary or otherwise) to any other Limited Partner, the Partnership, any Parallel Fund, any alternative investment structure (as described in Section 2.11) or any of their respective limited partners or members in respect of the activities of the Investor Advisory Committee, other than the duty to act in good faith. The participation by any Limited Partner who is a member of the Investor Advisory Committee in the activities of the Investor Advisory Committee shall not be construed to constitute participation by such Limited Partner in the control of the business of the Partnership so as to make such Limited Partner liable as a general partner for the debts and obligations of the Partnership for purposes of the Act. No Limited Partner who is a member of the Investor Advisory Committee shall be deemed to be an Affiliate of the Partnership or the General Partner solely by reason of such membership. In the absence of fraud or willful misconduct on the part of members of the Investor Advisory Committee, the Partnership shall, to the fullest extent permitted by law, indemnify and hold harmless each such member of the Investor Advisory Committee with respect to the Partnership (and their respective heirs and legal and personal representatives) who was or is a party, or is threatened to be made a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including any action by or in the right of the Partnership or any of the Partners), by reason of any actions or omissions or alleged acts or omissions arising out of such Person's activities in connection with serving on the Investor Advisory Committee against losses, damages or expenses (including reasonable attorney's fees, judgments, fines and amounts paid in settlement) actually incurred by such Person in connection with such actions, suit or proceedings; *provided* that any Person entitled to indemnification from the Partnership hereunder shall obtain the written consent of the General Partner (which consent shall not be unreasonably withheld) prior to entering into any compromise or settlement which would result in an obligation of the Partnership to indemnify such Person.

ARTICLE VI

Expenses and Fees

6.1 *General Partner Expenses.* General Partner Expenses means (a) payroll costs (including salaries, bonuses, payroll taxes and benefits) of personnel of the General Partner and its Affiliates and general overhead expenses of the General Partner and its Affiliates (including office rent, supplies, equipment and utilities) in each case directly attributable or reasonably allocable to the General Partner's duties and obligations hereunder and (b) any other expenses incurred by the General Partner and its Affiliates in the preliminary investigation and sourcing of

potential investment opportunities; *provided* that General Partner Expenses shall not include the amounts payable to the JER Asset Manager pursuant to Section 6.3(b) or (c).

6.2 *Management Fee.* (a) (i) The Management Fee will commence accruing as of the date of the Initial Closing. Each Limited Partner shall make a Capital Contribution or Direct Payment, as applicable, to the General Partner of the fee applicable to such Limited Partner (the "*Management Fee*") described below. The Management Fee shall be paid in arrears in the manner and on the dates set forth in Section 3.1.

(ii) The Management Fee applicable to a Limited Partner on any date shall be an amount equal to the product of:

(A)(I) if such Limited Partner has a Capital Commitment of at least \$100 million, 1% per annum, (II) if such Limited Partner has a Capital Commitment of at least \$75 million but less than \$100 million, 1.25% per annum, (III) if such Limited Partner has a Capital Commitment of less than \$75 million, 1.50% per annum, multiplied by

(B)(I) prior to the earlier of the expiration or termination of the Commitment Period (including pursuant to Section 3.2(e)) the Capital Commitment of such Limited Partner as of the first day of the period in respect of which the Management Fee is then being paid and (II) thereafter, the aggregate amount of Capital Contributions by such Limited Partner in respect of Investments that have not been subject to Disposition as of the first day of such period;

provided that (A) if at any time prior to the expiration or termination of the Commitment Period a Change in Management occurs and the obligation of Limited Partners to make Capital Contributions for Investments has been suspended pursuant to Section 3.2(e)(ii), the Management Fee for such period shall be based on the amount specified in Section 6.2(a)(ii)(B)(II), except that if the obligation of the Limited Partners to make Capital Contributions for Investments is later reinstated without removal of the General Partner, the Management Fee for such period of suspension shall be recalculated and shall be based on the amount specified in Section 6.2(a)(ii)(B)(I) and the Limited Partners within ten Business Days following presentation of a Payment Notice containing the details thereof shall pay to the General Partner the difference in such amounts and (B) the Management Fee following any Events of Dissolution shall be based on the amount specified in Section 6.2(a)(ii)(B)(II).

(b) The Management Fee for any Management Fee period of the Partnership shall be pro-rated for the number of days in such period.

(c) If an additional Limited Partner is admitted to the Partnership or an existing Limited Partner increases its Capital Commitment subsequent to the date hereof pursuant to Section 3.3 of the Partnership Agreement at a Subsequent Closing, an incremental Management Fee arising from such admission or increase shall be due for the period from the Initial Closing to the date of the payment of the installment of the Management Fee next following such admission or increase, plus an additional amount thereon at the rate of 10% per annum from the

Initial Closing to the date of such Subsequent Closing, pro rated based upon the actual number of days elapsed, in accordance with Section 3.3(e).

(d) *Management Fee Offset.* (i) The Partnership and the Limited Partners recognize that the General Partner and its Affiliates may receive fees ("*Other Fees*") for other services rendered in connection with Investments or Portfolio Companies and agree that the Management Fee payable hereunder shall not be affected thereby, except as contemplated by this Section 6.2(d).

(ii) The aggregate Management Fee paid by the Limited Partners in a year shall be reduced by an amount (the "*Reduction Amount*") equal to the sum of 80% of all Designated Fees previously received in such year. Designated Fees shall be net of costs and expenses incurred by the General Partner and its Affiliates in connection with the matters out of which such Designated Fees arose.

(iii) The Reduction Amount for any installment of the Management Fee shall be based upon the aggregate of Designated Fees received by the General Partner and its Affiliates in each year prior to the date of such installment. The Reduction Amount shall be applied to reduce the Management Fee payable on such date and to the extent not so applied shall be carried forward for application against future installments of the Management Fee until such Reduction Amount is fully utilized in reducing the Management Fee. The Reduction Amount shall reduce the Management Fee from each Limited Partner from which a Management Fee is payable in proportion to the respective amounts payable by all such Limited Partners.

(iv) If a placement fee ("*Placement Fee*") is payable by a Limited Partner (which fee shall be allocated on a *pro rata* basis to the Limited Partners in accordance with their Capital Commitments), the Management Fee paid by such Limited Partner will be reduced by the amount of the Placement Fee paid which has not previously been offset against the Management Fee.

6.3 *Partnership Expenses.* (a) The Partnership shall bear and be charged with the following costs and expenses of the Partnership (and shall promptly reimburse the General Partner or its Affiliates, as the case may be, to the extent that any of such costs and expenses are paid by such entities) (the "*Partnership Expenses*"):

(i) fees and expenses for attorneys and accountants,

(ii) all costs and expenses, if any, incurred in diligencing, acquiring, developing, negotiating, structuring, financing and disposing of actual Investments, including, costs for financing, legal, accounting, advisory and consulting services, duplicating, postage, delivery lodging, travel, long distance telephone, appraisal, engineering and environmental services, and property and asset management fees in connection therewith (to the extent not subject to any reimbursement of such costs and expenses by entities in which the Partnership invests or other third parties),

(iii) to the extent the General Partner and its Affiliates are not reimbursed by an entity in which the Partnership has invested or proposes to invest or other third parties,

(A) Broken Deal Expenses and (B) any deposits or down payments of cash or other property (whether made before or after the date hereof) that are forfeited in connection with a proposed Investment that is not ultimately made,

(iv) sales, leasing and brokerage commissions, development fees, loan servicing fees, custodial expenses and other investment costs incurred in connection with Investments,

(v) interest on and fees and expenses arising out of all borrowings made by the Partnership, including the arranging thereof,

(vi) the costs of any litigation, D&O liability or other insurance and indemnification or extraordinary expense or liability relating to the affairs of the Partnership,

(vii) expenses of liquidating the Partnership,

(viii) any taxes, fees or other governmental charges levied against the Partnership and all expenses incurred in connection with any tax audit, investigation, settlement or review of the Partnership,

(ix) the expenses of the Investor Advisory Committee under Section 5.4(d) and Partnership meetings as described in Section 7.4 hereof, and

(x) The General Partner acknowledges that it has fiduciary responsibilities in connection with the incurrence of Partnership Expenses.

(b) The Partnership shall also reimburse affiliates of the General Partner at competitive market rates to the extent such Affiliates provide any of the services described in Section 6.3(a) which would otherwise be provided by an unrelated third party, subject to the limitations set forth in Section 4.6(f); *provided* that the Partnership shall not pay any General Partner Expenses (which expenses are intended to be paid from the Management Fee); and *provided further* that such payments shall not constitute Other Fees.

(c) The Partnership will retain JER or another Affiliate of the General Partner (the "*JER Asset Manager*") to provide asset management, special servicing, due diligence loan origination, loan servicing, securitization, property management, development, leasing and any other services that would typically be provided by third-parties (including due diligence services provided prior to the date hereof). In such event, the JER Asset Manager will be responsible for day-to-day asset management or servicing of such Investment and will be reimbursed for its fully allocated costs (i) with respect to asset management services concerning Investments made by the Partnership, on the basis of 1.35% per annum of the cost of the underlying assets acquired in connection with such Investments and (ii) with respect to due diligence or acquisition related services, on the basis of hourly rates based on 220% per annum of the base salaries of the personnel of the JER Asset Manager providing such services (the "*Asset Management Cost Reimbursement*"). The JER Asset Manager may also earn fees from other investors at competitive market rates for asset management services provided for assets or to entities in which the Partnership has an Investment with respect to the portion of such assets or entities.

owned by other investors. Any Limited Partner may during the first Fiscal Quarter of each Fiscal Year request that an audit be performed, at the Partnership's expense, with respect to the General Partner's calculation of the Asset Management Cost Reimbursement, for the prior Fiscal Year.

(d) Partnership Expenses and the repayment of any Indebtedness may be allocated against items of Disposition Proceeds, Current Proceeds and Temporary Investment Income in a manner reasonably determined by the General Partner. Partners may be required to make Capital Contributions to the extent of their Unpaid Capital Commitments for the payment of such Partnership Expenses to the extent the Partnership does not have sufficient funds to pay such expenses.

(e) The General Partner may withhold on a pro rata basis from any distributions amounts necessary to create, in its sole discretion, appropriate reserves for expenses and liabilities, contingent or otherwise, of the Partnership.

(f) Any amounts paid by the Partnership for or resulting from any instrument or other arrangement designed to hedge or reduce one or more risks associated with an Investment shall be considered a Partnership Expense relating to such Investment. Any distributions resulting from any such arrangements shall be treated as Current Proceeds from such Investment.

(g) The Partnership may invest in or enter into short sales and other derivative contracts or instruments if such sales, contracts or instruments are bona fide hedging transactions in connection with the acquisition, holding or disposition of Investments and are not entered into for speculative purposes. Any amounts paid by the Partnership for or resulting from any such sales, contracts or instruments shall be treated as a Partnership Expense relating to the Investment(s) hedged thereby and as part of the contributions applied to such Investment(s) for purposes of the distribution priorities set forth in the Partnership Agreement, and, if two or more Investments are hedged thereby, such amounts shall be allocated among such Investments as reasonably determined by the General Partner. Any distributions resulting from any such sales, contracts or instruments shall be treated as Current Proceeds from the Investment(s) hedged thereby, and, if two or more Investments are hedged thereby, such distributions shall be allocated among such Investments as reasonably determined by the General Partner.

ARTICLE VII

Books and Records and Reports to Partners

7.1 Books and Records. The General Partner shall keep or cause to be kept complete and appropriate records and books of account. Except as otherwise expressly provided herein, such books and records shall be maintained on a basis which allows the proper preparation of the Partnership's financial statements and tax returns. The books and records shall be maintained at the principal office of the Partnership. Any Limited Partner or its duly authorized representatives shall be permitted to inspect the books and records of the Partnership

for any proper purpose and make copies thereof at any reasonable time during normal business hours. The books and records of the Partnership will be retained by the General Partner at least until the fourth anniversary of the due date of the final tax return filed by the Partnership.

7.2 Federal, State, Local and Non-U.S. Income Tax Information. Within 90 days after the end of each Fiscal Year, or as soon as practicable thereafter and within 180 days (subject in both cases to reasonable delays in the event of the late receipt of any necessary information from any Person in which the Partnership holds Investments) after the end of such Fiscal Year, the General Partner shall prepare and send, or cause to be prepared and sent, to each person who was a Partner at any time during such Fiscal Year copies of such information as may be required for Federal, state, local and non-U.S. income tax reporting purposes, including copies of Schedule K-1 ("Partner's Share of Income, Credits, Deductions, etc.,") or any successor schedule or form, for such person, and such other information as a Partner may reasonably request for the purpose of applying for refunds of withholding taxes.

7.3 Reports to Partners. (a) Within forty-five (45) days after the end of each of the first three Fiscal Quarters of each Fiscal Year of the Partnership, and within 90 days (subject in both cases to reasonable delays in the event of the late receipt of any necessary financial statements from any Person in which the Partnership holds Investments) after the end of each Fiscal Year of the Partnership, the General Partner shall send to each person who was a Partner during such period:

(i) the following financial statements for the Partnership prepared on an accrual basis and in accordance with generally accepted accounting principles:

(A) a balance sheet of the Partnership as of the end of such period,

(B) a statement of income or loss for each Partner and a statement of Partners' capital for such period,

(C) a statement of cash flows, and

(D) a statement of changes in Partners' equity;

(ii) a schedule of changes in Capital Account balances by Partner;

(iii) a schedule and summary description of each Investment owned by the Partnership as of the end of such Fiscal Quarter;

(iv) a certificate of the General Partner as to whether, after due inquiry and investigation, (A) any event has occurred which has caused the obligation of the Limited Partners' to make Capital Contributions to be suspended or (B) a material breach by the General Partner of any covenant, representation or warranty of this Agreement has occurred and is continuing;

(v) in the case of an annual report with respect to any Fiscal Year, an opinion of a nationally recognized accounting firm based upon their audit of the financial statements referred to in clause (i) above; and

(vi) in the case of an annual report with respect to any Fiscal Year, the General Partner shall cause to be mailed to each Partner, if not already contained in such annual report, a report containing:

(A) a statement of any fees received by the General Partner or any of its Affiliates during such Fiscal Year in connection with the Partnership (including fees received from or in respect of Investments in Portfolio Companies);

(B) such other information which any Limited Partner may reasonably request in writing relating to the Partnership's or the General Partner's other relationships, if any, with Portfolio Companies (subject to the imposition by the General Partner of reasonable confidentiality restrictions with respect to such information);

(C) a certificate of the General Partner to the effect that the statement of the fees described in subparagraph (A) above is true and correct in all material respects; and

(D) a statement of any Broken Deal Expenses borne by the Partnership during such Fiscal Year.

(b) With reasonable promptness, the General Partner will deliver such other information available to the General Partner, including (i) descriptive investment information with respect to each of the Investments on a quarterly basis, (ii) financial statements and computations, as any Limited Partner may from time to time reasonably request in order to comply with regulatory requirements, including reporting requirements, to which such Limited Partner is subject, (iii) as the General Partner may from time to time deem necessary, prompt updates of material developments with respect to any material litigation relating to the business of the General Partner, the Partnership, JER, or any of their respective Affiliates commenced by or against the Partnership or by or against Joseph E. Robert, Jr. or Deborah L. Harmon or any other Partner of the General Partner who is an employee of JER.

(c) During any period in which the obligation of the Limited Partners to make Capital Contributions has been suspended pursuant to any provision of this Agreement, the Limited Partners shall be given prior notice of (i) the closing of a Successor Fund by JER, the General Partner or any of their respective Affiliates and (ii) any investment by JER, the General Partner, or any of their respective Affiliates which would not otherwise be permitted to have been made outside the Partnership and the Parallel Funds under Section 4.6(d) or Section 4.6(e).

7.4 Partnership Meetings; Actions by Written Consent. (a) The General Partner shall hold an annual meeting of Partners beginning in 2004.

(b) The General Partner may call a special meeting of the Partnership by giving at least 21 days notice of the time and place of such meeting to each Limited Partner, which notice shall set out the agenda for such meeting. The General Partner shall promptly call a special meeting of the Partnership if Limited Partners holding at least 30% of the Interests request that a special meeting of the Partnership be so called. The General Partner shall give at

least 21 days notice of the time and place of such meeting to each Limited Partner, which notice shall set out the agenda for such meeting. The General Partner shall promptly solicit Limited Partners as to whether they wish to provide written consents to any action if requested to do so by Limited Partners holding at least 30% of the Interests. Written notice of any action taken by written consent promptly will be given to all Limited Partners. Written notice of a special meeting may be waived by a Limited Partner by an instrument executed before or after any such special meeting.

(c) Any action required to be, or which may be, taken at any special meeting by the Partners may be taken in writing without a meeting and without prior notice if consents thereto are given by the General Partner and Limited Partners holding Interests in an amount not less than the amount that would be necessary to take such action at a meeting. All Limited Partners shall be given notice of any such action so taken.

(d) A Limited Partner may vote at any meeting either in person or by a proxy which such Limited Partner has duly executed in writing. The General Partner may permit Persons other than Partners to participate in a meeting; *provided* that no such Person shall be entitled to vote. Limited Partners may participate in any meeting by means of conference telephone or video conferencing by means of which all persons participating in the meeting can hear and be heard. All meetings will be held within the 48 contiguous United States.

(e) The chairman of any special meeting shall be a Person affiliated with and designated by the General Partner. A Person designated by the General Partner shall keep written minutes of all of the proceedings and votes of any such meeting.

(f) The General Partner may set in advance a record date for determining the Limited Partners entitled to notice of and to vote at any meeting or entitled to express consent to any action in writing without a meeting. No record date shall be less than 10 nor more than 60 days prior to the date of any meeting to which such record date relates nor more than 10 days after the date on which the General Partner sets the record date for any action by written consent.

ARTICLE VIII

Transfers, Withdrawals and Default

8.1 *Transfer and Withdrawal of the General Partner.* (a) *Voluntary Transfer.* Without the consent of 80% in Interest of the Limited Partners, the General Partner shall not have the right to assign or otherwise transfer its interest (including by way of the merger or other similar business combination transaction between the General Partner and another entity whether consensual or by operation of law) as the general partner of the Partnership (but may pledge its interest in connection with any Partnership Indebtedness), and the General Partner shall not have the right to withdraw from the Partnership; *provided* that without the consent of the Limited Partners the General Partner may, at the General Partner's expense, be reconstituted as or converted into a corporation, limited liability company or other form of entity (any such reconstituted or converted entity being deemed to be the General Partner for all purposes hereof) by merger, consolidation or otherwise, or transfer its interest as the general partner of the Partnership to one of its Affiliates, so long as (i) Joseph E. Robert, Jr. continues to control such

entity or Affiliate and no Change in Management occurs in connection with such transaction and (ii) such reconstitution, conversion or transfer does not have adverse tax or legal consequences for the Limited Partners. In the event of an assignment or other transfer of all of its interest as a general partner of the Partnership in accordance with this Section 8.1(a), its assignee or transferee shall be substituted in its place as general partner of the Partnership and immediately thereafter the General Partner shall withdraw as a general partner of the Partnership.

(b) *Removal/Dissolution.* (i) *Removal/Dissolution With Cause.* (A) Limited partners representing at least 66-2/3%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds may, at their option upon notice to the General Partner at any time following a finding of Cause by any court or governmental body of competent jurisdiction in a final judgment, or an admission of Cause by the General Partner or any partner thereof in a settlement of any lawsuit, and a failure of the General Partner to cure such Cause in the time and manner specified in paragraph (B) below, either (x) require the removal, effective as of a date not less than 30 days from the date of notice to the General Partner of such removal, of the General Partner from the Partnership and the substitution of another Person as general partner of the Partnership in lieu thereof (which successor general partner shall be approved by limited partners representing 66-2/3%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds and which removal shall be effected in accordance with the procedures set forth in Sections 8.1(e)) or (y) dissolve and liquidate the Partnership effective as of a date not less than 30 days from the date of notice to the General Partner of such dissolution.

(B) Any event constituting Cause under this Section 8.1(b)(i) shall be deemed cured if, within 45 calendar days after notice to the General Partner pursuant to Section 8.1(b)(i)(A), limited partners representing at least 66-2/3%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds determine that the General Partner has taken action which cures such Cause (including in the case of any finding of Cause with respect to the conduct of personnel of the General Partner and its Affiliates other than Joseph E. Robert, Jr. if the General Partner terminates or causes the termination of employment with the General Partner and its Affiliates of all individuals who engaged in the conduct constituting such Cause and makes the Partnership and any entity in which the Partnership has made an Investment whole for any actual financial loss which such conduct had caused the Partnership or such entity).

(ii) *Removal/Dissolution Without Cause.* Limited Partners representing at least 66 2/3%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds may, at their option at any time and for any reason either (x) require the removal, effective as of a date not less than 30 days from the date of notice to the General Partner of such removal, of the General Partner from the Partnership and the substitution of another Person as general partner of the Partnership in lieu thereof (which successor general partner shall be approved by limited partners representing 66 2/3%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds and which removal shall be effected in accordance with the procedures set forth in Sections 8.1(f)) or (y) dissolve and

liquidate the Partnership effective as of a date not less than 30 days from the date of notice to the General Partner of such dissolution.

(c) *Removal following Disabling Event.* The General Partner shall cease to be the general partner of the Partnership upon the occurrence of a Disabling Event, and thereafter, except as provided by applicable law, neither the General Partner nor its successors in interest shall have any of the powers, obligations or liabilities of a general partner of the Partnership under this Agreement or under applicable law. Subject to Section 9.1(b), upon the occurrence of any Disabling Event the Partnership shall be dissolved and wound up in accordance with the provisions of Section 9.2. If the General Partner shall cease to be the general partner of the Partnership upon the occurrence of a Disabling Event and limited partners representing 66-2/3%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds shall determine to continue the business of the Partnership pursuant to Section 9.1(b), notice of that determination shall be given to the General Partner by a party authorized by such Limited Partners to give such notice on behalf of such Limited Partners.

(d) *Removal/Dissolution Following Change in Management.* Within 60 days of receipt of notice of a Change in Management, limited partners representing 66-2/3%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds may elect in writing either to (i) require the removal, effective as of a date not less than 90 days from the date of notice to the General Partner of such removal, of the General Partner from the Partnership and the substitution of another Person as general partner of the Partnership in lieu thereof (which successor general partner shall be approved by limited partners representing 66-2/3%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds) (which removal shall be effected in accordance with the procedures set forth in Section 8.1(f) or (ii) dissolve and liquidate the Partnership effective as of a date not less than 90 days from the date of notice to the General Partner of such dissolution.

(e) A successor general partner selected pursuant to Section 8.1(b)(i) or 9.1(b) shall be required to purchase for cash the General Partner's Interest in the Partnership at a price equal to, or alternatively upon liquidation pursuant to Section 8.1(b)(i) or 9.1(b) the General Partner shall be entitled to receive an amount equal to, the Appraised Value Without Carry. In the case of removal within 30 days after the determination of the Appraised Value Without Carry, the General Partner shall sell, assign and transfer to the successor general partner all of the General Partner's right, title and interest in and to the Partnership and the Partnership's assets upon payment in cash of the Appraised Value Without Carry by such successor general partner.

(f) A successor general partner selected pursuant to Section 8.1(b)(ii) or Section 8.1(d)(i) shall be required to purchase for cash the General Partner's interest in the Partnership at a price equal to the Appraised Value With Carry, and upon liquidation pursuant to Section 8.1(b)(ii) or Section 8.1(d)(ii) the General Partner shall be entitled to receive the amount provided in Section 9.3. Within 30 days after the determination of the Appraised Value With Carry, the General Partner shall sell, assign and transfer to the successor general partner all of the General Partner's right, title and interest in and to the Partnership and the Partnership's assets upon payment in cash of the Appraised Value With Carry by such successor general partner.

8.2 Assignments/Substitutions or Withdrawals by Limited Partners. (a) A Limited Partner may not sell, assign or otherwise transfer its Interest in whole or in part to any Person (an "Assignee") without the prior written consent of the General Partner, which consent may be given or withheld in the sole and absolute discretion of the General Partner; *provided that* in the case of transfers which are not as a security interest (i) such consent shall not be unreasonably withheld if the transferee (including any transferee which is an Affiliate of the Transferor) demonstrates to the General Partner's satisfaction that it has the financial capability to meet its obligations to the Partnership and that it is not a competitor of JER, its Affiliates or the Partnership, (ii) such consent shall not be withheld to transfers to Affiliates of a Limited Partner so long as the transferor remains liable for the performance by the transferee of its obligations hereunder, (iii) such consent shall not be withheld to transfers by Limited Partners which are State agencies to a successor State agency and (iv) such consent shall not be withheld to transfers by a Limited Partner which is a trustee of an employee benefit plan to a successor trustee of such plan. However, notwithstanding anything herein to the contrary, no such assignment or transfer shall be made unless in the opinion of responsible counsel (who may be counsel for the Partnership), which opinion and counsel shall be satisfactory to the General Partner and which opinion may be waived, in whole or in part, in the sole and absolute discretion of the General Partner:

(A) such assignment or transfer would not violate the Securities Act or any state securities or "Blue Sky" laws applicable to the Partnership or the Interest to be assigned or transferred;

(B) such assignment or transfer would not cause the Partnership to lose its status as a partnership for federal income tax purposes or cause the Partnership to become subject to the 1940 Act;

(C) such assignment or transfer would not cause the Partnership to be treated as a "publicly traded partnership" within the meaning of Section 7704 of the Code and the regulations promulgated thereunder; and

(D) such assignment or transfer would not cause (1) all or any portion of the assets of the Partnership to (X) constitute "plan assets" (under ERISA, the Code or any applicable Similar Law) of any existing or contemplated ERISA Partner or Benefit Plan Partner, or (y) be subject to the provisions of ERISA, the Code or any applicable Similar Law, or (2) the General Partner to become a fiduciary with respect to any existing or contemplated ERISA Partner or Benefit Plan Partner, pursuant to ERISA or any applicable Similar Law.

Each assigning Limited Partner agrees that it will pay all reasonable expenses, including attorneys' fees, incurred by the Partnership in connection with an assignment or transfer of an Interest by such Limited Partner, except to the extent that the Assignee thereof agrees to bear such expenses.

(b) A permitted Assignee of an Interest in the Partnership of a Limited Partner (other than an Assignee which holds such Interest as a secured party) shall be admitted as a substitute Limited Partner in the Partnership only with the consent of the General Partner (which

consent may be given or withheld in its sole discretion). In such event, the assigning Limited Partner of such Interest shall be released from all of its obligations and liabilities hereunder except pursuant to Sections 5.2(b) and 10.6 or as may otherwise be agreed by such assigning Limited Partner in connection with such assignment. A permitted Assignee of an Interest in the Partnership of a Limited Partner which holds such Interest as a secured party shall be admitted as a substitute Limited Partner in the Partnership upon foreclosure of such security interest only with the consent of the General Partner (which consent may be given or withheld in its sole discretion). An assignee of an Interest that is not admitted as a substitute Limited Partner shall be entitled only to allocations and distributions with respect to that Interest and shall have no rights to vote such Interest, to participate in the affairs of the Partnership or to any information or accounting of the affairs of the Partnership and shall not have any of the other rights of a Partner pursuant to this Agreement.

(c) The General Partner shall prohibit any assignment, transfer or substitution (and shall not recognize any such assignment, transfer or substitution) if the General Partner reasonably believes that such assignment, transfer or substitution poses a material risk that the Partnership will be treated as a "publicly traded partnership" within the meaning of Section 7704 of the Code and the regulations promulgated thereunder.

(d) Any attempted assignment or substitution not made in accordance with this Section 8.2 shall be null and void.

8.3 Defaulting Limited Partner. (a) Subject in all events to the provisions of Section 3.2, any Limited Partner that fails to make, when due, any portion of the Capital Contribution required to be contributed by such Limited Partner pursuant to this Agreement or to make any Direct Payment or any other payment required to be made by it hereunder when required to be made may, in the discretion of the General Partner, be charged an additional amount on the unpaid balance of any such Capital Contributions, Direct Payments or other payments at the Prime Rate plus 2.0% from the date such balance was due and payable through the date full payment for such balance is actually made, and to the extent such additional amount is not otherwise paid such additional amount may be deducted from any distribution to such Limited Partner. Any such additional amount owed to the Partnership shall be allocated and distributed to the other Partners pro rata to their Capital Commitments.

(b) If any Limited Partner fails to make, when due, any portion of the Capital Contribution required to be contributed by such Limited Partner pursuant to this Agreement or to make any Direct Payment or any other payment required to be made by it hereunder when required to be made, then the Partnership shall promptly provide written notice of such failure to such Limited Partner. If such Limited Partner fails to make such Capital Contribution, Direct Payment or other payment within five (5) Business Days after receipt of such notice, then (i) such Limited Partner shall be deemed a "Defaulting Limited Partner" and (ii) the following Sections 8.3(c) through (g) shall apply.

(c) The General Partner shall have the right to determine, in its sole discretion, that whenever the vote, consent or decision of a Limited Partner or of the Partners is required or permitted pursuant to this Agreement, except as required by the Act, any Defaulting Limited Partner shall not be entitled to participate in such vote or consent, or to make such decision, and

such vote, consent or decision shall be tabulated or made as if such Defaulting Limited Partner were not a Partner.

(d) The General Partner shall have the right in its sole discretion to (i) determine that a Defaulting Limited Partner shall forfeit to the nondefaulting Partners as recompense for damages suffered, and the Partnership shall withhold (for the account of the nondefaulting Partners), all distributions except to the extent that such distributions represent a return of capital to such Defaulting Limited Partner less any expenses, deductions or losses (including such defaulting Partner's share of the Net Loss on all Writedowns) allocated to such Limited Partner and (ii) assess up to a 25% reduction in the Capital Account balance of the Defaulting Limited Partner (which to the extent imposed shall reduce distributions to such Defaulting Limited Partner pursuant to the foregoing clause (i)). Any amounts withheld from the Defaulting Limited Partner by the Partnership or reduced by the General Partner pursuant to the preceding sentence shall be distributed among the nondefaulting Partners in proportion to their Percentage Interests in the Investment or Partnership property giving rise to such distribution or, in the case of a distribution upon liquidation, in proportion to the liquidating distributions to them pursuant to Section 9.3, subject to the right of each such nondefaulting Partner not to have a distribution in kind made to it pursuant to Section 9.3.

(e) In the event that a Limited Partner defaults in making a Capital Contribution or Direct Payment to the Partnership (or any alternative investment vehicle formed pursuant to Section 2.11) (or, in the event that a limited partner of a Parallel Fund defaults in making a direct payment or capital contribution to such Parallel Fund (or any alternative investment vehicle)), the General Partner may require all of the nondefaulting Partners (and each nondefaulting partner of all Parallel Funds) to increase their Capital Contributions by an aggregate amount equal to the Direct Payment or Capital Contribution of the Defaulting Limited Partner on which it defaulted; *provided* that no Partner shall be obligated without its consent to contribute an amount in excess of 133% of the amount of Capital Contributions originally requested from such Partner in respect of such Investment; and provided further that no Limited Partner will be required to fund amounts in excess of its Unpaid Capital Commitment. If the General Partner elects to require such increase, the General Partner shall deliver to each nondefaulting Partner (and each nondefaulting partner of all Parallel Funds) written notice of such default as promptly as practicable after its occurrence and, thereafter, with respect to each Investment, the General Partner shall as promptly as practicable deliver to each such nondefaulting Partner (and each nondefaulting partner of all Parallel Funds) a Payment Notice in respect of the Direct Payment or Capital Contribution which the Defaulting Limited Partner failed to make. Subject to the provisos set forth above in this Section 8.3(e), such Payment Notice shall (i) call for a Direct Payment or Capital Contribution by each such nondefaulting Partner in an amount equal to the amount of such nondefaulting Partner's Pro Rata Share of such additional Direct Payment or Capital Contribution and (ii) specify a Payment Date for such Direct Payment or Capital Contribution, which date shall be at least ten (10) calendar days from the date of delivery of such Payment Notice by the General Partner. If any Limited Partner is not required to make a Direct Payment or Capital Contribution in accordance with this Section 8.3(e) because such Direct Payment Capital Contribution would be in excess of such Limited Partner's Unpaid Capital Commitment or result in such Limited Partner without its consent making a Capital Contribution for an Investment in excess of 133% of the amount of Capital Contributions originally requested from such Limited Partner in respect of such Investment, then, subject to the provisos set forth in

this Section 8.3(e), the General Partner shall send to each other Limited Partner (and to each other limited partner of the Parallel Funds) which is not subject to the constraints set forth above and which is otherwise able to participate in such Investment a Payment Notice providing the amount of any additional Direct Payment or Capital Contribution which such other Limited Partner shall be required to make as a result of such excess not being funded by the defaulting Limited Partner, which amount shall bear the same ratio to the aggregate of the additional amounts payable by all such other Limited Partners as such other Limited Partner's Unpaid Capital Commitment bears to the Unpaid Capital Commitments of all such other Limited Partners. The provisions of this Section 8.3(e) shall operate successively until either all Limited Partners able to participate in such Investment are subject to either of the constraints set forth above or the full amount of the Direct Payment or Capital Contribution of the Defaulting Limited Partner has been provided for.

(f) No right, power or remedy conferred upon the General Partner in this Section 8.3 shall be exclusive, and each such right, power or remedy shall be cumulative and in addition to every other right, power or remedy whether conferred in this Section 8.3 or now or hereafter available at law or in equity or by statute or otherwise. No course of dealing between the General Partner and any Defaulting Limited Partner and no delay in exercising any right, power or remedy conferred in this Section 8.3 or now or hereafter existing at law or in equity or by statute or otherwise shall operate as a waiver or otherwise prejudice any such right, power or remedy. In addition to the foregoing, the General Partner may in its sole discretion institute a lawsuit against any Defaulting Limited Partner for specific performance of its obligation to make Capital Contributions and to collect any overdue amounts hereunder, with interest on such overdue amounts calculated at the rate specified in Section 8.3(a).

(g) Each Limited Partner acknowledges by its execution hereof that it has been admitted to the Partnership in reliance upon its agreements under this Agreement, that the General Partner and the Partnership may have no adequate remedy at law for a breach hereof and that damages resulting from a breach hereof may be impossible to ascertain at the time hereof or of such breach.

8.4 Further Actions. The General Partner shall cause this Agreement to be amended to reflect as appropriate the occurrence of any of the transactions referred to in this Article VIII as promptly as is practicable after such occurrence.

8.5 Admissions and Withdrawals Generally. Except as expressly provided in this Agreement, no Partner shall have the right to withdraw from the Partnership or to withdraw any part of its Capital Account and no additional Partner may be admitted to the Partnership. Each new Partner shall be admitted as a Partner upon the execution by or on behalf of it of an agreement pursuant to which it becomes bound by the terms of this Agreement, and acceptance thereof by the General Partner. The names and addresses of all Persons admitted as Partners and their status as General Partner or a Limited Partner shall be maintained in the records of the Partnership.

8.6 Required/Elective Withdrawals. (a) A Limited Partner may be required to withdraw from the Partnership if (i) in the case of a Benefit Plan Partner, in the reasonable judgment of the General Partner based upon an opinion of counsel to the Partnership, by virtue

of that Benefit Plan Partner's Interest in the Partnership, the assets of the Partnership would be reasonably likely to be characterized as assets of any employee benefit plan for purposes of the Plan Assets Regulation, ERISA, the Code or any applicable Similar Law, whether or not such plan is subject to ERISA, the Code or any Similar Law, or the Partnership or any Partner is reasonably likely to be subject to any requirement to register under the 1940 Act or (ii) in the reasonable judgment of the General Partner, a material adverse effect on the Partnership or any of its Affiliates, any Person in which the Partnership holds Investments or any prospective investment is likely to result. Notice of any such withdrawal shall be given to all Limited Partners as well as a copy of the opinion of counsel referred to above in the case of a withdrawal pursuant to clause (i) above.

(b) Upon written notice to the General Partner, a Limited Partner shall have the power to withdraw from the Partnership if, by reason of a change in any law, regulation or governmental order, or judicial interpretation thereof, to which such Limited Partner is subject occurring after its admission to the Partnership, a violation of any such law, regulation or order or a non-exempt prohibited transaction under ERISA or Section 4975 of the Code will more probably than not result without such withdrawal, provided that any such Limited Partner shall remain liable to the Partnership to the extent of any breach of a representation, warranty or covenant made by such Limited Partner to the Partnership arising out of or relating to such withdrawal. A Limited Partner seeking to withdraw pursuant to this Section 8.6(b) shall supply opinions of counsel to such effect (which opinions and counsel shall be reasonably satisfactory to the General Partner and, in the case of a Limited Partner which is an institutional investor, may be staff counsel regularly employed by such institutional investor) and other information as the General Partner may reasonably request to verify such Limited Partner's right to withdraw pursuant to this Section 8.6(b).

(c) Withdrawals pursuant to this Section 8.6 will be effected either by (i) the Partnership's purchase of such Limited Partner's Interest in the Partnership at a price equal to the Appraised Value With Carry and for the consideration permitted by Section 8.7(b) or (ii) a transfer of such Limited Partner's Interest in the Partnership in accordance with the requirements of Section 8.2(a) within not more than 60 days following notices of withdrawal as provided in this Section 8.6; *provided, however*, that in the case of a transfer pursuant to this Section 8.6, the General Partner will (I) use its best efforts to assist the withdrawing Limited Partner in effecting such a transfer and (II) the General Partner will not unreasonably withhold its consent to such a transfer.

8.7 Plan Assets Matters. (a) If any ERISA Partner shall deliver to the General Partner an opinion of counsel (which opinion and counsel shall be reasonably satisfactory to the General Partner) to the effect that there is a reasonable likelihood that the assets of the Partnership constitute "plan assets" of any ERISA Partner for purposes of the Plan Asset Regulations, ERISA or the Code (which opinion shall be provided by the General Partner to all other ERISA Partners) (a "Plan Asset Opinion"), the General Partner shall then as promptly as practicable use its reasonable best efforts to take such actions as it deems necessary and appropriate to prevent or cure such result, taking into account the interests of all Partners and of the Partnership as a whole. Without limiting the generality of the foregoing, the General Partner may: (i) renegotiate the non-financial terms of any Investment or otherwise modify the manner in which the Partnership conducts its affairs; (ii) permit the transfer, in accordance with this Article

VIII, of all or a portion of the Interests of any of the Benefit Plan Partners; (iii) terminate the right and obligation of Benefit Plan Partners to make Capital Contributions to fund Investments in accordance with Section 3.1(a); (iv) require, by notice to the Benefit Plan Partners, any or all Benefit Plan Partners completely or partially to withdraw from the Partnership in accordance with the provisions of Section 8.7(b); or (v) apply for administrative relief from the U.S. Department of Labor or other applicable regulatory body; *provided* that if the General Partner intends to take the actions described in clauses (ii), (iii) or (iv), the General Partner shall provide a copy of the Plan Assets Opinion to each Benefit Plan Partner. If within 60 days after receipt of such opinion, the General Partner has not delivered to each ERISA Partner an opinion of counsel (which counsel and opinion shall be reasonably satisfactory to ERISA Partner that delivered the first opinion), or such other evidence as may be reasonably satisfactory to such ERISA Partner, that the assets of the Partnership are not reasonably likely to constitute "plan assets" under ERISA or the Code, each ERISA Partner which is deemed to own an undivided interest in the underlying assets of the Partnership under ERISA or the Code will have the option to withdraw completely or partially from the Partnership, by notice to the General Partner, in accordance with the provisions of Section 8.7(b).

(b) A complete or partial withdrawal pursuant to Section 8.7(a) will be effected by the Partnership's purchase of the withdrawing Partner's Interest at a price equal to the Appraised Value With Carry of such Interest, and for the consideration set forth in this Section 8.7(b). In addition to cash consideration, the Partnership may pay in whole or in part for any purchase of a withdrawing Partner's Interest with securities (through a distribution in kind of Investments); the making of any such payment in kind shall be at the option of the General Partner after consultation with the withdrawing Partner, and such payment in kind shall be made in the form of the withdrawing Partner's pro rata share of each Investment of the Partnership; *provided* that if such distribution in kind would cause the withdrawing Limited Partner or the Partnership to suffer an adverse effect as a result of the application of law or, in the judgment of the General Partner, cause the Partnership to breach any contractual obligation of the Partnership, the General Partner or their respective Affiliates, then such Limited Partner and the General Partner shall each use its best efforts to make alternative arrangements for the sale or transfer into an escrow account of any such distribution on mutually agreeable terms; and *provided, further*, that a non-pro rata distribution in kind may be made with the consent of the withdrawing Limited Partner. The effective date of any withdrawal pursuant to this Section 8.7(b) shall be the last day of the month in which notice of such withdrawal was given pursuant to Section 8.7(a).

(c) If a Limited Partner withdraws from the Partnership pursuant to Section 8.6 or this Section 8.7, (i) the portion, if any, of the Investments attributable to the Carried Interest allocable to the General Partner with respect to such Limited Partner's Interest shall remain in the Partnership in cash or in kind, as the case may be, and shall be held solely for the account of the General Partner, (ii) the portion of such Limited Partner's Capital Account corresponding to such portion of the Investments shall be allocated to the Capital Account of the General Partner and (iii) the General Partner shall be entitled to the proceeds from the disposition of such portion of the Investments at the time of their disposition.

(d) The costs of any ERISA Partner for obtaining or seeking to obtain an opinion of counsel for the purposes of this Section 8.7 shall be borne by such ERISA Partner.

(e) If the assets of the Partnership at any time are "plan assets" for the purposes of ERISA, the Code or any applicable Similar Law with respect to any ERISA Partner or Benefit Plan Partner subject to Similar Law, then each Limited Partner which is, directly or indirectly, such an ERISA Partner or Benefit Plan Partner or the fiduciary of such an ERISA Partner or Benefit Plan Partner shall, at the request of the General Partner, identify to the General Partner which of the Persons on a list furnished by the General Partner of Persons with whom the Partnership may have had non-exempt dealings are, to the best of its knowledge after due inquiry, parties in interest or disqualified persons (as defined in Sections 3 of ERISA and 4975 of the Code, respectively, or similar related parties under the applicable provisions of any Similar Law) with respect to such ERISA Partner or Benefit Plan Partner.

ARTICLE IX

Term and Dissolution of the Partnership

9.1 *Term.* The existence of the Partnership commenced on the date of the filing of the Certificate of Limited Partnership pursuant to the Act and shall continue until the Partnership is dissolved and subsequently terminated, which dissolution shall occur upon the first of any of the following events (each an "Event of Dissolution"):

- (a) The expiration of the term of the Partnership in accordance with Section 2.7;
- (b) The occurrence of a Disabling Event with respect to the General Partner, *provided* that the Partnership shall not be dissolved if, within 90 days after the Disabling Event, limited partners representing 66-2/3%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds agree in writing to continue the business of the Partnership and to the appointment, effective as of the date of the Disabling Event, of another General Partner which shall agree to purchase the interest of the General Partner in the manner specified in Section 8.1(e);
- (c) After the Commitment Period, at the time as of which all Investments have been disposed of;
- (d) The determination by the General Partner in good faith based on a written opinion of counsel to the Partnership that such earlier dissolution and termination is necessary or advisable because there has been a materially adverse change in any applicable law or regulation or to avoid any violation of, or registration under, the 1940 Act, ERISA, Section 4975 of the Code or the applicable provisions of any Similar Law;
- (e) The effective date of dissolution pursuant to Section 8.1(b) or 8.1(d); and
- (f) The determination by the General Partner at anytime that such earlier dissolution and termination would be in the best interests of the Partners, provided that any such determination is consented to by a Majority in Interest of the Limited Partners.

9.2 *Winding-up.* Upon the occurrence of an Event of Dissolution, the Partnership shall be wound up and liquidated. The General Partner or, if there is no general partner (including if, as a result of a Disabling Event or the occurrence of an event of Cause, the

Partnership is being dissolved pursuant to Section 8.1(b)(i) or (c)), a liquidator appointed by a Majority in Interest of the Limited Partners, shall proceed with the Dissolution Sale and the Final Distribution. In the Dissolution Sale, the General Partner or such liquidator shall use its best efforts to reduce to cash and cash equivalent items such assets of the Partnership as the General Partner or such liquidator shall deem it advisable to sell, subject to obtaining fair value for such assets and any tax or other legal considerations (including legal restrictions on the ability of a Limited Partner to hold any assets to be distributed in kind).

9.3 Final Distribution. After the Dissolution Sale, the proceeds thereof and the other assets of the Partnership shall be distributed in one or more installments in the following order of priority:

(a) to the payment of the expenses of the winding-up, liquidation and dissolution of the Partnership;

(b) to pay all creditors of the Partnership, other than Partners with respect to distributions already owing to them hereunder, by the payment thereof or the making of reasonable provision therefor;

(c) to establish reserves, in amounts established by the General Partner or such liquidator, to meet other liabilities of the Partnership, other than Partners with respect to distributions already owing to them hereunder;

(d) to pay, in accordance with the terms agreed among them and otherwise on a pro rata basis, all other creditors of the Partnership that are Partners in respect to distributions already owing to them hereunder, either by the payment thereof or the making of reasonable provision therefor.

The remaining proceeds, if any, plus any remaining assets of the Partnership, shall be applied and distributed to the Partners in accordance with the positive balances of the Partners' Capital Accounts, as determined after taking into account all adjustments to Capital Accounts for the Partnership taxable year during which the liquidation occurs, by the end of such taxable year or, if later, within 90 days after the date of such liquidation. For purposes of the application of this Section 9.3 and determining Capital Accounts on liquidation, all unrealized gains, losses and accrued income and deductions of the Partnership shall be treated as realized and recognized immediately before the date of distribution. If a Limited Partner shall, upon the advice of counsel, determine that there is a reasonable likelihood that any distribution in kind of an asset would cause such Limited Partner to be in violation of any law, regulation or governmental order, or be involved in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code, such Limited Partner and the General Partner or the liquidator shall each use its best efforts to make alternative arrangements for the sale or transfer into an escrow account of any such distribution on mutually agreeable terms.

9.4 Guarantee of Clawback Performance. Partners of the General Partner have severally guaranteed the performance of the Clawback Amount payable pursuant to the terms of Section 10.1(b) solely in respect of the After-Tax Amount of their and their Related Parties' (as defined in the Guarantee referred to below) respective shares of the Carried Interest to the extent

and on the terms set forth in the Guarantee in the form set forth in Annex C (the "Guarantee"). If shares of the Carried Interest are allocated to any new Partner of the General Partner who is not already a Related Party of an existing party to the Guarantee, the General Partner shall cause such partner to become a party to such Guarantee on the same terms as the existing parties to the Guarantee.

ARTICLE X

Capital Accounts and Allocations of Profits and Losses

10.1 *Capital Accounts.* (a) A separate capital account (the "*Capital Account*") shall be established and maintained for each Partner. The Capital Account of each Partner shall be credited with such Partner's Capital Contributions to the Partnership and any other contributions to capital, all Profits allocated to such Partner pursuant to Section 10.2 and any items of income or gain which are specially allocated pursuant to Section 10.3; and shall be debited with all Losses allocated to such Partner pursuant to Section 10.2, any items of loss or deduction of the Partnership specially allocated to such Partner pursuant to Section 10.3, and all cash and the Carrying Value of any property (net of liabilities assumed by such Partner and the liabilities to which such property is subject) distributed by the Partnership to such Partner. To the extent not provided for in the preceding sentence, the Capital Accounts of the Partners shall be adjusted and maintained in accordance with the rules of U.S. Treasury Regulations Section 1.704-1(b)(2)(iv), as the same may be amended or revised. Any references in any section of this Agreement to the Capital Account of a Partner shall be deemed to refer to such Capital Account as the same may be credited or debited from time to time as set forth above. In the event of any transfer of any interest in the Partnership in accordance with the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred interest.

(b) Notwithstanding anything else in this Agreement to the contrary, no Limited Partner shall be required to pay to the Partnership or to any other Partner the amount of any negative balance which may exist from time to time in such Partner's Capital Account. If there is a negative balance in the Capital Account of the General Partner after adjusting Capital Accounts to reflect events through the end of the period of liquidation of the Partnership, the General Partner shall contribute to the Partnership for distribution in accordance with Section 9.3 an amount equal to such negative balance first, out of payments from the Escrow Account and, thereafter, out of payments made directly to the Partnership by or on behalf of the General Partner; provided, however, that the total amount required to so contributed shall not exceed the Clawback Amount. The payment of any such amount to the Partnership shall constitute full satisfaction by the General Partner of its obligations under this Section 10.1(b) in respect of such Limited Partner.

10.2 *Allocations of Profits and Losses.* (a) Except as otherwise provided in this Agreement, Profits, Losses and, to the extent necessary, individual items of income, gain, loss or deduction of the Partnership shall be allocated among the Partners (i) 99% to the Limited Partners and 1% to the General Partner, (ii) 49.5% to the Limited Partners and 50.5% to the General Partner, or (iii) 79.2% to the Limited Partners and 20.8% to the General Partner, as the case may be, in a manner such that the Capital Account of each Partner, immediately after

making such allocation, and after taking into account actual distributions made during such Fiscal Year (and distributions with respect to such Fiscal Year to be made after the end of such Fiscal Year if the General Partner is able to determine in good faith the manner in which such distributions shall be made under Section 3.5) is, as nearly as possible, equal (proportionately) to (i) the distributions that would be made to such Partner pursuant to Section 3.5 if the Partnership were dissolved, its affairs wound up and its assets sold for cash equal to their Carrying Value, all Partnership liabilities including the Partnership's share of any liability of any entity treated as a partnership for U.S. federal income tax purposes in which the Partnership is a Partner, were satisfied (limited with respect to each non-recourse liability to the Carrying Value of the assets securing such liability), and the net assets of the Partnership were distributed in accordance with Section 3.5 immediately after making such allocation, minus (ii) such Partner's share of Partnership Minimum Gain and Partner Nonrecourse Debt Minimum Gain, computed immediately prior to the hypothetical sale of assets, plus (iii) in the case of a Limited Partner, such Limited Partner's share of the Clawback Amount that would be distributed thereto, if any, minus (iv) in the case of the General Partner, the Clawback Amount provided, that to the extent Losses exceed the positive Adjusted Capital Account Balances of the Partners determined after giving effect to actual distributions and hypothetical sale distributions, the excess shall be allocated first to those Partners with positive Adjusted Capital Account Balances, in proportion to, and to the extent of, such Adjusted Capital Account Balances, and thereafter to the General Partner. Notwithstanding the foregoing, if an allocation of Loss would be in a ratio different from 99% to the Limited Partners and 1% to the General Partner, such Loss shall be allocated to the General Partner only to reverse prior allocations of Profits in the same ratio and the same order that Profits in excess of 1% were previously allocated to the General Partner, *provided that* such allocation shall not result in the General Partner having a deficit balance in its Capital Account (computed as specified in the first sentence hereof) of more than the Clawback Amount, determined as if the Partnership liquidated as of such time, with all Partnership assets being sold for their Adjusted Cost as of such date.

(b) Notwithstanding any other provision of this Agreement, it is the intent of the Partners that the provisions hereof relating to each Partner's distributive share of income, gain, loss, deduction or credit (or item thereof) shall comply with the provisions of Section 704 (b) of the Code and the applicable Regulations and that the Partnership shall at all times meet the requirements of Section 514 (c)(9)(E) of the Code and the applicable regulations and items of income, gain, loss or deduction shall be allocated among the Partners only to the extent that such allocation would not violate those rules. In furtherance of the foregoing, the General Partner shall resolve any ambiguity in the provisions of this Agreement in a manner that will preserve, protect and further the intention of the Partners to cause this Agreement to comply with the aforesaid Code provisions for federal income tax purposes.

(c) "*Clawback Amount*" means, with respect to any Limited Partner, an amount equal to the lesser of (i) the Excess 20% Amount (as defined below) and (ii) the After-Tax Amount of the aggregate distributions of Carried Interest to the General Partner with respect to such Limited Partner.

(i) The "*Excess 20% Amount*" with respect to any Limited Partner shall equal an amount such that if such amount were distributed to such Limited Partner, the aggregate distributions of Carried Interest to the General Partner with respect to such

Limited Partner (after reduction for such amount) would equal 20% of the sum of (A) such Limited Partner's Cumulative Net Distributions (as defined below) (after increase for such amount) and (B) the aggregate distributions of Carried Interest to the General Partner with respect to such Limited Partner (after reduction for such amount).

(ii) The "*Cumulative Net Distributions*" with respect to any Limited Partner shall equal the excess of (A) the cumulative distributions to such Limited Partner of the Investment Proceeds over (B) the aggregate amount of Capital Contributions, Direct Payments and returns of distributions pursuant to Section 5.2(b) made by such Limited Partner.

10.3 *Special Allocation Provisions. (a) Minimum Gain Chargeback.*

Notwithstanding any other provision in this Article X, if there is a net decrease in Partnership Minimum Gain or Partner Nonrecourse Debt Minimum Gain (determined in accordance with the principles of U.S. Treasury Regulations Sections 1.704-2(d) and 1.704-2(i)) during any Partnership taxable year, the Partners shall be specially allocated items of Partnership income and gain for such year (and, if necessary, subsequent years) in an amount equal to their respective shares of such net decrease during such year, determined pursuant to U.S. Treasury Regulations Sections 1.704-2(g) and 1.704-2(i)(5). The items to be so allocated shall be determined in accordance with U.S. Treasury Regulations Section 1.704-2(f). This Section 10.3(a) is intended to comply with the minimum gain chargeback requirements in such U.S. Treasury Regulations Sections and shall be interpreted consistently therewith; including that no chargeback shall be required to the extent of the exceptions provided in U.S. Treasury Regulations Sections 1.704-2(f) and 1.704-2(i)(4).

(b) *Qualified Income Offset.* In the event any Partner unexpectedly receives any adjustments, allocations, or distributions described in U.S. Treasury Regulation Section 1.704-1(b)(2)(ii)(d)(4), (5) or (6), items of Partnership income and gain shall be specially allocated to such Partner in an amount and manner sufficient to eliminate the deficit Adjusted Capital Account Balance in his Capital Account created by such adjustments, allocations or distributions as promptly as possible; provided, that an allocation pursuant to this Section 10.3(b) shall be made only to the extent that a Partner would have a deficit Adjusted Capital Account Balance in excess of such sum after all other allocations provided for in this Article X have been tentatively made as if this Section 10.3(b) were not in this Agreement. This Section 10.3(b) is intended to qualify with the "qualified income offset" requirement of the Code.

(c) *Gross Income Allocation.* In the event any Partner has a deficit Capital Account at the end of any Fiscal Year which is in excess of the sum of (i) the amount such Partner is obligated to restore, if any, pursuant to any provision of this Agreement, and (ii) the amount such Partner is deemed to be obligated to restore pursuant to the penultimate sentences of U.S. Treasury Regulations Section 1.704-2(g)(1) and 1.704-2(i)(5), each such Partner shall be specially allocated items of Partnership income and gain in the amount of such excess as quickly as possible; *provided* that an allocation pursuant to this Section 10.3(c) shall be made only if and to the extent that a Partner would have a deficit Capital Account in excess of such sum after all other allocations provided for in this Article X have been tentatively made as if Section 10.3(b) and this Section 10.3(c) were not in this Agreement.

(d) *Payee Allocation.* In the event any payment to any person that is treated by the Partnership as the payment of an expense is recharacterized by a taxing authority as a Partnership distribution to the payee as a partner, such payee shall be specially allocated an amount of Partnership gross income and gain as quickly as possible equal to the amount of the distribution.

(e) *Nonrecourse Deductions.* Nonrecourse Deductions of the Partnership for any Fiscal Year shall be specially allocated to the Partners in the same proportion as Profits or Losses are allocated for such Fiscal Year; *provided* that if an allocation of Nonrecourse Deductions is (i) in excess of amounts of Profits previously allocated in the ratio of 99% to the Limited Partners and 1% to the General Partner, and (ii) in excess of Profits of the current taxable year, then such allocation of Nonrecourse Deductions shall instead be made to the Partners in the ratio of 99% to the Limited Partners and 1% to the General Partner. The provisions of this Section 10.3(e) are intended to satisfy the requirements of Regulations sections 1.704-2(e)(2) and 1.704-2(i)(1) and shall be interpreted in accordance therewith for all purposes under this Agreement.

(f) *Partner Nonrecourse Deductions.* Partner Nonrecourse Deductions for any taxable period shall be allocated to the Partner who bears the economic risk of loss with respect to the liability to which such Partner Nonrecourse Deductions are attributable in accordance with U.S. Treasury Regulations Section 1.704-2(i)(1).

(g) Any special allocations of income or gain pursuant to Sections 10.3(b) or (c) hereof shall be taken into account in computing subsequent allocations pursuant to Section 10.2 and this Section 10.3(g), so that the net amount of any items so allocated and all other items allocated to each Partner shall, to the extent possible, be equal to the net amount that would have been allocated to each Partner if such allocations pursuant to Sections 10.3(b) or (c) had not occurred

10.4 *Tax Allocations.* For income tax purposes only, each item of income, gain, loss and deduction of the Partnership shall be allocated among the Partners in the same manner as the corresponding items of Profits and Losses and specially allocated items are allocated for Capital Account purposes; *provided* that in the case of any Partnership asset the Carrying Value of which differs from its adjusted tax basis for Federal income tax purposes, income, gain, loss and deduction with respect to such asset shall be allocated solely for income tax purposes in accordance with the principles of Sections 704(b) and (c) of the Code (in any manner determined by the General Partner) so as to take account of the difference between Carrying Value and adjusted basis of such asset.

10.5 *Other Allocation Provisions.* The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with U.S. Treasury Regulations Section 1.704-1(b) and shall be interpreted and applied in a manner consistent with such regulations. Sections 10.2 to 10.5 may be amended at any time by the General Partner if necessary, in the opinion of tax counsel to the Partnership, to comply with such regulations, so long as any such amendment does not materially change the relative economic interests of the Partners.

10.6 *Tax Advances.* (a) To the extent the General Partner reasonably determines that the Partnership is required by law to withhold or to make tax payments on behalf of or with respect to any Partner (e.g., withholding taxes) ("*Tax Advances*"), the General Partner may withhold such amounts and make such tax payments as so required. All Tax Advances made on behalf of a Partner shall, at the option of the General Partner, (i) be promptly paid to the Partnership by the Partner on whose behalf such Tax Advances were made or (ii) be repaid by reducing the amount of the current or next succeeding distribution or distributions which would otherwise have been made to such Partner or, if such distributions are not sufficient for that purpose, by so reducing the proceeds of liquidation otherwise payable to such Partner. Whenever the General Partner selects option (ii) pursuant to the preceding sentence for repayment of a Tax Advance by a Partner, for all other purposes of this Agreement such Partner shall be treated as having received all distributions (whether before or upon liquidation) unreduced by the amount of such Tax Advance. Each Partner hereby agrees to indemnify and hold harmless the Partnership and the other Partners from and against any liability (including any liability for taxes, penalties, additions to tax or interest) with respect to income attributable to or distributions or other payments to such Partner. In the event the Partnership is liquidated and a liability is asserted by a governmental authority against the General Partner or any member or officer of the General Partner for Tax Advances made or required to be made, the General Partner shall have the right to be reimbursed from the Limited Partner on whose behalf such Tax Advance was made or required to be made.

(b) The General Partner may receive a cash advance against distributions of Carried Interest to the General Partner to the extent that annual distributions of Carried Interest actually received by the General Partner are not sufficient for the General Partner or any of its beneficial owners (whether such interests are held directly or indirectly) to pay when due any income tax imposed on it or them, calculated using the Assumed Tax Rate that is attributable to income allocated to the General Partner hereunder, *provided* that the aggregate amount of income considered allocated to the General Partner for all periods shall not exceed the excess of income allocated to the General Partner over losses allocated to the General Partner from the Partnership to the date this determination is being made. Amounts of Carried Interest otherwise to be distributed to the General Partner pursuant to Section 3.5(a) shall be reduced by the amount of any prior advances made to the General Partner pursuant to this Section 10.6(b) until all such advances are restored to the Partnership in full.

ARTICLE XI

Miscellaneous

11.1 *Waiver of Partition and Accounting.* Except as may be otherwise required by law in connection with the winding-up, liquidation and dissolution of the Partnership, each Partner hereby irrevocably waives any and all rights that it may have to maintain an action for an accounting or for partition or similar action of any of the Partnership's property.

11.2 *Confidentiality.* Each Limited Partner agrees that, except as otherwise consented to by the General Partner, such Limited Partner shall keep confidential in accordance with such Limited Partner's internal procedures in effect from time to time and not to disclose to any Person any information or matter relating to the Partnership and its affairs and any

information or matter related to any Investment, including any information contained in any Payment Notice or any report distributed pursuant to Article VII; provided that a Limited Partner may disclose any such information to the extent that (i) such information is or becomes generally available to the public through no act or omission of such Limited Partner, (ii) such information otherwise is or becomes known to such Limited Partner other than by disclosure by the Partnership or the General Partner, provided that the source of such information is not bound by a confidentiality agreement or other contractual, legal or fiduciary obligation of confidentiality, or (iii) such disclosure is to (A) such Limited Partner's and its Affiliates' trustees, directors, officers, employees, auditors, agents, attorneys, financial advisors and other professional advisors responsible for matters relating to the Partnership or who otherwise have a need to know such information in connection with their responsibilities with such Limited Partner and who are under an obligation to keep such information confidential on the terms set forth herein, (B) any investor approved of by the General Partner (such approval not to be unreasonably withheld) to which a Limited Partner sells or offers to sell an Interest pursuant to Section 8.2 if such investor agrees to keep such information confidential on the terms set forth herein, (C) any federal or state regulatory authority or self-regulatory body having jurisdiction over such Limited Partner including the National Association of Insurance Commissioners (including the Securities Valuation Office) or any nationally recognized rating agency that requires access to information about a Limited Partner's investment portfolio, or (D) with prior notice to the General Partner, any other Person to which such delivery or disclosure is necessary or appropriate (I) to effect compliance with any law, rule, regulation or order applicable to such Limited Partner, (II) in response to any subpoena or other legal process, (III) in connection with any litigation to which such Limited Partner is a party; provided that in connection with any disclosure pursuant to this clause (D) such Limited Partner shall upon request of the General Partner cooperate with the General Partner in seeking an order to protect the confidentiality of such information.

Notwithstanding anything herein to the contrary, each Limited Partner (and any employee, representative, or other agent of such Limited Partner) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the Partnership or any transactions contemplated by the Partnership under this Agreement. However, any such information relating to the tax treatment or tax structure is required to be kept confidential to the extent necessary to comply with any applicable federal or state securities laws. For purposes of the two preceding sentences, tax treatment and tax structure shall not include, and such Limited Partner (or employee, representative or agent thereof) shall not disclose (i) the name of, or any other identifying information regarding, the Partnership or any existing or future investor (or any affiliate thereof) in the Partnership (ii) any performance information relating to the Partnership or its investments, (iii) any performance or other information relating to previous funds or investments sponsored by JER or (iv) any information regarding the specific economic terms of the Partnership (including, without limitation, the amount of any fees and the percentages used in calculating carried interest).

11.3 *Power of Attorney.* Each Limited Partner hereby irrevocably constitutes and appoints the General Partner, with full power of substitution, the true and lawful attorney-in-fact and agent of such Limited Partner, to execute, acknowledge, verify, swear to, deliver, record and file, in its or its assignee's name, place and stead, all in accordance with the terms of this Agreement, all instruments, documents and certificates which may from time to time be required by the laws of the United States of America, the State of Delaware, any other jurisdiction in which the Partnership conducts or plans to conduct its affairs, or any political subdivision or

agency thereof to effectuate, implement and continue the valid existence and affairs of the Partnership, including, the power and authority to verify, swear to, acknowledge, deliver, record and file:

(a) all certificates and other instruments, including any amendments to this Agreement or to the Certificate of Limited Partnership, which the General Partner deems appropriate to form, qualify or continue the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware and all other jurisdictions in which the Partnership conducts or plans to conduct its affairs,

(b) any amendments to this Agreement or any other agreement or instrument which the General Partner deems appropriate to (i) effect the addition, substitution or removal of any Limited Partner or General Partner pursuant to this Agreement or (ii) effect any other amendment or modification to this Agreement, but only if such amendment or modification is duly adopted in accordance with the terms hereof,

(c) all conveyances and other instruments which the General Partner deems appropriate to reflect the dissolution and termination of the Partnership pursuant to the terms hereof, including the writing required by the Act to cancel the Certificate of Limited Partnership,

(d) all instruments relating to transfers of Interests of Limited Partners or to the admission of any substitute Limited Partner, and

(e) certificates of assumed name and such other certificates and instruments as may be necessary under the fictitious or assumed name statutes from time to time in effect in the State of Delaware and all other jurisdictions in which the Partnership conducts or plans to conduct its affairs.

Such attorney-in-fact and agent shall not, however, have the right, power or authority to amend or modify this Agreement when acting in such capacities, except to the extent authorized herein. This power of attorney shall terminate upon the bankruptcy, dissolution, disability or incompetence of the General Partner. The power of attorney granted herein shall be deemed to be coupled with an interest, shall be irrevocable, shall survive and not be affected by the dissolution, bankruptcy or legal disability of the Limited Partner and shall extend to its successors and assigns; and may be exercisable by such attorney-in-fact and agent for all Limited Partners (or any of them) by listing all (or any) of such Limited Partners required to execute any such instrument, and executing such instrument acting as attorney-in-fact. Any person dealing with the Partnership may conclusively presume and rely upon the fact that any instrument referred to above, executed by such attorney-in-fact and agent, is authorized, regular and binding, without further inquiry. If required, each Limited Partner shall execute and deliver to the General Partner within five days after the receipt of a request therefor, such further designations, powers of attorney or other instruments as the General Partner shall reasonably deem necessary for the purposes hereof.

11.4 *Amendments.* (a) Except as required by law, this Agreement (including the Annexes hereto) may be amended or supplemented by the written consent of the General Partner and a Majority in Interest of the Limited Partners; *provided* that no such amendment shall (i) increase any Limited Partner's Capital Commitment, reduce its share of the Partnership's distributions, income and gains by any amount, modify the clawback provisions, increase its share of the Partnership's losses by any amount, increase its share of the Management Fee payable by such Limited Partner or adversely affect the limited liability of such Limited Partner hereunder, without the written consent of each Limited Partner so affected, (ii) change the percentage of interests of (A) Limited Partners or (B) limited partners representing Interests of the Limited Partners and interests of the limited partners of all Parallel Funds (the "*Required Interest*") necessary for any consent required hereunder to the taking of an action unless such amendment is approved by Limited Partners (or limited partners representing Interests of the Limited Partners and interests of the limited partners of all Parallel Funds) who then hold interests equal to or in excess of the Required Interest for the subject of such proposed amendment, (iii) make any amendment or supplement to Sections 4.8 or 8.7 hereof or any other provision of this Agreement which deals with ERISA without the consent of a 66 $\frac{2}{3}$ ths in Interest of the ERISA Partners, (iv) amend this Section 11.4 without the consent of each Limited Partner, (v) amend Section 5.1(c) in any manner adverse to the interests of BHC Partners without the consent of each BHC Partner affected thereby or (vi) make any amendment or supplement to, without the consent of limited partners representing 80%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds, (A) Section 2.7, (B) Section 4.6, (C) the duration of the Commitment Period, (D) any provision regarding the suspension or termination of the Limited Partners' obligation to make Capital Contributions during the Commitment Period, (E) Section 3.2, Annex B or Section 8.6. Notwithstanding the foregoing, this Agreement may be amended by the General Partner without the consent of the Limited Partners to (x) change the name of the Partnership pursuant to Section 2.2, (y) cure any ambiguity or correct or supplement any provision hereof which is incomplete or inconsistent with any other provision hereof or correct any printing, stenographic or clerical error or omissions, provided that such amendment does not adversely affect the interests of any of the Limited Partners, and (z) provided that such amendment is not reasonably likely to have an adverse economic effect on the Limited Partners or obligations of the Limited Partners, amend Sections 10.2 to 10.5 pursuant to Section 10.5.

(b) The General Partner shall have the right to amend this Agreement without the approval of any other Partner to the extent the General Partner reasonably determines, based upon written advice of tax counsel to the Partnership, that the amendment is necessary to provide assurance that the Partnership will not be treated as a "publicly traded partnership," because it is entitled to "safe harbor" treatment under Section 7704 of the Code and the regulations promulgated thereunder; *provided* that (i) such amendment shall not change the relative economic interests of the Partners, reduce any Partners' share of distributions, or increase any Partner's Capital Commitment or its liability hereunder, (ii) the General Partner provides a copy of such written advice and amendment to the Limited Partners at least twenty (20) Business Days prior to the effective date of any such amendment and a Majority in Interest of the Limited Partners shall not have made a reasonable objection to such amendment prior to the effective date of such amendment.

11.5 *Entire Agreement.* This Agreement and the other agreements referred to herein including all side letters constitute the entire agreement among the Partners and between the Partners and the Initial Limited Partner with respect to the subject matter hereof and supersede any prior agreement or understanding among or between them with respect to such subject matter. The representations and warranties of the Limited Partners in, and the other provisions of, the Subscription Agreements shall survive the execution and delivery of this Agreement.

11.6 *Severability.* Each provision of this Agreement shall be considered severable and if for any reason any provision which is not essential to the effectuation of the basic purposes of this Agreement is determined by a court of competent jurisdiction to be invalid or unenforceable and contrary to the Act or existing or future applicable law, such invalidity shall not impair the operation of or affect those provisions of this Agreement which are valid. In that case, this Agreement shall be construed so as to limit any term or provision so as to make it enforceable or valid within the requirements of any applicable law, and in the event such term or provision cannot be so limited, this Agreement shall be construed to omit such invalid or unenforceable provisions.

11.7 *Notices.* All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given as provided below if (i) mailed, registered mail, first-class postage paid, (ii) sent by overnight mail or courier, (iii) transmitted via telegram, telex or facsimile, or (iv) delivered by hand, if to any Partner, at such Partner's address, or to such Partner's facsimile number, set forth in the books and records of the Partnership, and if to the Partnership, to the General Partner at the General Partner's address, or to the General Partner's facsimile number, set forth in the books and records of the Partnership, Attention: Daniel Ward, or to such other person or address as any Partner shall have last designated by notice to the Partnership, and in the case of a change in address by the General Partner, by notice to the Limited Partners. Any notice shall be deemed to have been duly given if personally delivered or sent by the mails or by telegram or telex confirmed by letter and will be deemed received, unless earlier received, (i) if sent by certified or registered mail, return receipt requested, when actually received, (ii) if sent by overnight mail or courier, when actually received, (iii) if sent by telegram or telex or facsimile transmission, on the date confirmatory notice sent by first-class mail, postage prepaid, is received and (iv) if delivered by hand, on the date of receipt.

11.8 *Governing Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware. In particular, the Partnership is formed pursuant to the Act, and the rights and liabilities of the Partners shall be as provided therein, except as herein otherwise expressly provided.

11.9 *Successors and Assigns.* Except with respect to the rights of Indemnified Parties hereunder, none of the provisions of this Agreement shall be for the benefit of or enforceable by the creditors of the Partnership and this Agreement shall be binding upon and inure to the benefit of the Partners, the Initial Limited Partner and their legal representatives, heirs, successors and permitted assigns.

11.10 *Partnership Tax Treatment.* The Partners intend for the Partnership to be treated as a partnership for U.S. federal income tax purposes and no election to the contrary shall be made.

11.11 *Counterparts.* This Agreement may be executed in one or more counterparts, all of which shall constitute one and the same instrument.

11.12 *Interpretation.* (a) Wherever from the context it appears appropriate, each term stated in either the singular or the plural shall include the singular and the plural, and pronouns stated in either the masculine or the neuter gender shall include the masculine, the feminine and the neuter. The words "include", "includes," and "including" shall be deemed to be followed by the phrase "without limitation."

(b) Whenever in this Agreement a person is permitted or required to make a decision (i) in its "sole discretion," "sole and absolute discretion" or "discretion" or under a grant of similar authority or latitude, the person shall be entitled to consider any interests and factors as it desires, including its own interests, or (ii) in its "good faith" or under another express standard, the person shall act under such express standard and shall not be subject to any other or different standards imposed by this Agreement or any other agreement contemplated herein or by relevant provisions of law or in equity or otherwise.

11.13 *Headings.* The section headings in this Agreement are for convenience of reference only, and shall not be deemed to alter or affect the meaning or interpretation of any provisions hereof.

11.14 *Delivery of Certificate of Limited Partnership, etc.* The General Partner shall promptly provide a copy of the Certificate of Limited Partnership, this Agreement and each amendment to the Certificate of Limited Partnership or this Agreement to each Limited Partner.

[rest of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

GENERAL PARTNER:

JER REAL ESTATE ADVISORS III, L.P.

By: JER REAL ESTATE ADVISORS III, INC., its general partner

By: *Daniel T. Ward*
Name: DANIEL T. WARD
Title: SEN. MANAGING DIRECTOR

LIMITED PARTNERS:

All Limited Partners now and hereafter admitted pursuant to powers of attorney now and hereafter granted to the General Partner

By: JER REAL ESTATE ADVISORS III, L.P., as attorney-in-fact for the Limited Partners subscribing for Interests as set forth in the books and records of the Partnership

By: JER Real Estate Advisors III, Inc., its general partner

By: *Daniel T. Ward*
Name: DANIEL T. WARD
Title: SEN. MANAGING DIRECTOR

INITIAL LIMITED PARTNER:

Rachael Clarke
Rachael Clarke, solely to reflect her withdrawal

INVESTMENT GUIDELINES

The investment objective of the Partnership is to make investments in real estate and real estate related assets. The Partnership may invest, directly or indirectly, in any debt or equity interests (or options relating thereto) in, or relating to, real estate assets of any type (including pools thereof) or real estate companies and real estate related companies (each such transaction of single or multiple assets, an "Investment"). Investments may include: (i) any debt or equity or other interest in, directly or indirectly, or relating to, real estate assets (including performing or nonperforming mortgage or other real estate related loans, the purchase of mortgage loan and real property portfolios owned by banks, insurance companies, corporations or government agencies, investments in, or recapitalizations of, operating companies with significant real estate assets, the acquisition and/or development of single real estate assets, investments in CMBS and other related securities and loans other than with respect to Conduit Securitizations (unless otherwise agreed to by the Investment Advisory Committee), the acquisition of tax lien investments and the origination or acquisition of mortgage loans including mezzanine debt instruments and mortgages with equity characteristics and unsecured loans to companies and entities involved in real estate related activities), (ii) property management, leasing, development or other real estate related businesses and (iii) any non-real estate assets or any businesses that consist of non-real estate related assets or operations, as the case may be, including personal property and unsecured loans, which are part of, or incidental to, an Investment which consists principally of assets or businesses referred to in clauses (i) and (ii). The Partnership may incur or assume any Indebtedness as provided in Section 4.2(c).

Without the approval of 100% of the Limited Partners and the limited partners of all Parallel Funds, or, if the deviation from the following conditions is de minimis (as determined in good faith by the General Partner) without the approval of the Investor Advisory Committee, the Partnership will not:

(a) make any single Investment or group of Investments in a single asset the amount of which exceeds 20% of the Capital Commitments; *provided* that the Partnership may make a single Investment or group of Investments in a single asset in an amount of up to 40% of the Capital Commitments (such percentage amount shall be calculated on a basis that includes any and all amounts of the Limited Partners' obligation to make Capital Contributions in support of obligations owed to a lender or lenders) if the General Partner believes in good faith that the amount retained in such single Investment or group of Investments can be reduced to no more than 20% of the Capital Commitments within one year from the date of the initial investment therein; and *provided, further*, that in the case of an Investment which is comprised of multiple assets (other than an Investment in a single class of publicly traded debt or equity securities), the foregoing limitation shall be applied on an asset-by-asset basis with respect to such Investment and not with respect to the Investment as a whole; and

(b) invest in a collective investment fund (i.e., a "fund of funds") providing for the payment of management fee or carried interest (for the avoidance of doubt, it being understood that joint venture or similar structures with other strategic

investors, stock option, "cheap stock" and similar incentive plans for management teams of Portfolio Companies and customary performance compensation to developers, venture partners and property managers shall not be deemed subject to this clause (b)).

Without the approval of the Investor Advisory Committee, the Partnership will not:

(a) invest in Portfolio Companies which are primarily engaged in the operation, development, leasing or management of amusement parks, gambling facilities and natural resources (including timberland);

(b) invest more than 25% of its aggregate Capital Commitments in Investments that are Non-US/Canadian Entities;

(c) invest in Investments that are, at the time of initial investment, Passive Public Equity Investments, *provided* that the Partnership may make such Investments if (i) such acquisition was incidental to an otherwise permitted Investment (e.g., an investment in the equity of a publicly traded company which is incidental to an off-balance sheet joint venture with such company to acquire real estate assets) or (ii) such Portfolio Company is "distressed" as reasonably determined by the General Partner and holds or controls real estate related assets.

The Partnership will not make any Investment that (i) would cause any Limited Partner to have in any country other than the United States an obligation to file an income tax return or incur a liability for taxes on such Limited Partner's share of the income from such Investment (for the avoidance of doubt, any liability solely of the Partnership or any entity in which the Partnership invests for such taxes not being deemed a liability of a Limited Partner) or be required to qualify to do business in such country, (ii) would cause any Limited Partner to be deemed to be engaged in a trade or business in any country other than the United States if as a result, such other country would tax (on a net income basis) all of the income of such Limited Partner from sources within such other country, (iii) would cause any Limited Partner to have, under the laws of the country in question in effect at the time of the making of the Investment in question (or pending at such time and known to the General Partner), liability to third parties in respect of such Investment in excess of any amount for which such Limited Partner may be liable under Partnership Agreement or under applicable U.S. law, or (iv) would violate any law, statute, regulation, ordinance or decree of the United States or the country in question, or any political subdivision thereof, in effect at the time of such making such Investment (or pending at such time and known to the General Partner, taking into consideration any approvals which the General Partner anticipates obtaining or any requirements with which the General Partner intends to comply. The Partnership will not make any Investment in a Non-US/Canadian Entity until it shall have obtained an opinion of counsel admitted to practice in the country in question substantially to the effect that the conditions set forth in (i)-(iv) above are satisfied with respect to such Investment under the laws of such jurisdiction.

The Partnership will make an Investment in a Non-US/Canadian Entity only if at the time of the making of such Investment, revenues or capital proceeds arising out of such Investment would, under law, be capable of being remitted out of the country in question in

freely convertible currency, subject in each case, however, to such restrictions on or requirements with respect to such remittance as the General Partner in its reasonable discretion shall deem acceptable. The General Partner shall, with respect to the issue of permitted remittance out of a country of income received in that country, consult with professionals conversant with such issue and shall, at the request of any Limited Partner, make available to such Limited Partner the information received pursuant to such consultation.

The above investment guidelines shall be subject to the good faith interpretation of the General Partner.

[rest of page intentionally left blank]

Form of Guarantee

THIS GUARANTEE (the "*Guarantee*") dated as of _____, 2003, is executed by each of the undersigned (collectively, the "*Guarantors*"), for the benefit of JER Real Estate Qualified Partners III L.P., a Delaware limited partnership (the "*Partnership*"), and its limited partners (the "*Limited Partners*"), to guarantee certain hereinafter defined obligations of JER Real Estate Advisors III, L.P. (the "*General Partner*") as general partner under the Amended and Restated Limited Partnership Agreement dated as of the date hereof (the "*Partnership Agreement*") of the Partnership. Capitalized terms used herein but not otherwise defined herein shall have the meanings set forth in the Partnership Agreement.

Preliminary Statement

As of the date hereof, the partners of JER Real Estate Advisors III, L.P., a Delaware limited partnership, which is the general partner of the Partnership, consist of each Guarantor, a member of such Guarantor's family or a corporation, trust, partnership or other entity formed by such Guarantor for investment by or for the benefit of such Guarantor's family members or charitable organizations (any such family member, corporation, trust, partnership or other entity, a "*Related Party*" with respect to such Guarantor). As an inducement to the Limited Partners to join the Partnership and make the Capital Commitments, the Guarantors have agreed to enter into this Guarantee. The Guarantors acknowledge that they will benefit from the Limited Partners' participation in the Partnership. The Guarantors are incurring obligations hereunder concurrently with the incurrence by the General Partner of its obligations under the Partnership Agreement.

In consideration of the above and as an inducement to the Limited Partners to join the Partnership and make the Capital Commitments, the Guarantors agree as follows:

1. *Guarantees of Clawback Amount; Related Definitions.* (a) Each of the Guarantors unconditionally and irrevocably, on a several but not joint basis, guarantees to the Partnership and each of the Limited Partners the payment in cash and performance when due of the General Partner's obligations to the Partnership as set forth in Section 10.1(b) of the Partnership Agreement (the "*Clawback Obligation*") solely to the extent of the amount of such Guarantor's Pro Rata Share (as hereinafter defined) of the Clawback Obligation, and to the extent that for any reason the General Partner shall fail fully and punctually to pay and perform the Clawback Obligation, each of the Guarantors shall pay to the Partnership such amount (net of any prior fundings to the General Partner from such Guarantor to pay such amount). The aggregate amount of the Guarantors' Pro Rata Shares of the Clawback Obligation shall equal the Clawback Obligation.

(b) In the event that a Guarantor transfers all or any part of its interest in the General Partner to another individual or entity, such transferor Guarantor shall remain liable for the performance by the transferee of its obligations hereunder.

(c) (i) This Guarantee is an absolute, unconditional, continuing guarantee of payment and performance and not of collectability, and is in no way conditioned or contingent

upon any attempt to collect from the General Partner, enforce performance by the General Partner or on any other condition or contingency. The obligations and agreements of the Guarantors under this Section 1 shall be performed and observed without requiring any notice of acceptance hereof, non-payment, non-performance or non-observance by the General Partner or any proof thereof or demand therefor, all of which Guarantors expressly waive to the fullest extent they are legally permitted to do so.

(ii) Except for the defense of payment, to the maximum extent permitted by applicable law, each Guarantor hereby waives and agrees not to assert or take advantage of any rights or defenses based on any rights or defenses of the General Partner to the Clawback Obligation including, without limitation, any failure of consideration, any statute of limitations, any insolvency or bankruptcy of the General Partner or any other defense, offset or counterclaim to any liability hereunder. No invalidity, irregularity, or unenforceability of all or any part of the Clawback Obligation shall affect, impair, or be a defense to this Guarantee, nor, except as set forth above, shall any other circumstance which might otherwise constitute a defense available to, or legal or equitable discharge of, the General Partner in respect of any of the Clawback Obligation affect, impair, or be a defense to this Guarantee.

(iii) To the maximum extent permitted by applicable law, one or more successive or concurrent actions may be brought hereon against the Guarantor, either in the same action in which any obligor is sued or in separate actions. If any claim or action, or action on any judgment, based on this Guarantee is brought against the Guarantor, the Guarantor agrees, except as set forth above, not to deduct, set off or seek to counterclaim for or recoup any amounts which are or may be owed to the Guarantor by the Partnership or the General Partner.

(iv) To the maximum extent permitted by applicable law, the obligations of the Guarantor under this Guarantee shall not be affected by (i) any merger or consolidation of the Partnership or the General Partner or any Affiliate of any such entity, (ii) any change in the direct or indirect ownership of the Guarantor or any other Person in the General Partner or any of its Affiliates, (iii) the effect of any non-U.S. or domestic laws, rules, regulations, or actions of a court or governmental body other than actions taken specifically in respect of the Clawback Obligation or this Guarantee, (iv) any amendment or waiver of or any consent to departure from the Partnership Agreement including, without limitation, any increase in the Clawback Obligation, except for changes, amendments, waivers, or consent effected in accordance with the Partnership Agreement, (v) any failure by the Partnership, the General Partner or any Affiliate of any such entity to mitigate its damages with respect to the Clawback Obligation, or (vi) except as set forth above, any other condition, event or circumstance which might otherwise constitute a legal or equitable discharge, release, or defense of a surety or guarantor, or which might otherwise limit recourse against the Guarantor, it being understood that the Guarantee shall not be discharged except by the full payment and performance of the Clawback Obligation.

(v) Each Limited Partner is a beneficiary of this Guarantee with the right to enforce it to the extent provided herein. The failure (by waiver, delay, consent, or otherwise) of any Limited Partner to assert any claim or demand or to enforce any remedy under this Guarantee will not in any manner vary or reduce the obligations of the Guarantor hereunder, except as provided in the following sentence. The Partnership Agreement may be amended,

modified, or supplemented in accordance with its terms without notice to, consent of, or agreement by the Guarantor.

(d) For the avoidance of doubt, none of the Guarantors shall have any obligation to pay the amounts owed under this Guarantee by any other Guarantor.

(e) (i) A Guarantor's "*Pro Rata Share*" of the Clawback Obligation shall equal (A) the product of (I) the Carried Interest Giveback Percentage (as defined below) of such Guarantor and his or her Related Parties and (II) the amount of such Clawback Obligation, *minus* (B) the interest of such Guarantor and his or her Related Parties in the total amounts paid out of the Escrow Account or otherwise paid by the General Partner on behalf of such Guarantor and his or her Related Parties in satisfaction of such Clawback Obligation.

(ii) The "*Carried Interest Giveback Percentage*" of a Guarantor and his or her Related Parties shall mean the percentage determined by dividing (a) the Personal After-Tax Amount of such Guarantor and his or her Related Parties by (b) the After-Tax Amount (as defined in the Partnership Agreement) of the aggregate distributions of Carried Interest to the General Partner.

(iii) The "*Personal After-Tax Amount*" of a Guarantor and his or her Related Parties shall mean an amount equal to (a) the amount of any Carried Interest actually distributed or deemed distributed to such Guarantor and his or her Related Parties (including amounts placed in the Escrow Account and amounts distributed to the General Partner and allocated but not distributed to such Guarantor and his or her Related Parties, in each case after giving effect to any forfeiture of such amounts in the Escrow Account and the reallocation of such forfeited amounts to other partners of the General Partner), minus (b) the Personal Income Tax Amount of such Guarantor and his or her Related Parties with respect to such Carried Interest.

(iv) The "*Personal Income Tax Amount*" of a Guarantor and his or her Related Parties, with respect to Carried Interest distributed or deemed distributed to a Guarantor and his or her Related Parties (including amounts credited to such Guarantor and his or her Related Parties in the Escrow Account), giving effect to any forfeiture of such amounts and the reallocation thereof, shall mean the amount of income tax imposed on (i) allocations of taxable income related to such Carried Interest or (ii) distributions of Carried Interest to such Guarantor and his or her Related Parties (including amounts placed in the Escrow Account and amounts of Carried Interest distributed to the General Partner and allocated but not distributed to such Guarantor and his or her Related Parties), giving effect to any forfeiture of such amounts in the Escrow Account and the reallocation of such amounts with such income tax (A) calculated by assuming that (I) the tax rate imposed is the Assumed Income Tax Rate in effect in the Fiscal Year of any such allocation and (II) capital losses from the Disposition of an Investment allocated to such Guarantor and his or her Related Parties relating to the Carried Interest ("*Capital Losses*") shall reduce capital gains from the Disposition of an Investment allocated to such Guarantor and his or her Related Parties relating to the Carried Interest ("*Capital Gains*") only to the extent of the amount of Capital Gains recognized in the Fiscal Year of the recognition of a Capital Loss or a subsequent Fiscal Year (only to the extent that Capital Losses may properly offset such Capital Gain) and (B) reduced by the amount of any tax benefit (I) actually realized by such Guarantor and his or her Related Parties (or, if such Partner or any Related Party

is treated as a partnership for federal income tax purposes, its direct or indirect owners) in the year in which a payment is required to be made directly or indirectly by or on behalf of such Guarantor and his or her Related Parties of any final Clawback Amount as a result solely of making such payment or (II) deemed to be realized by such Guarantor and his or her Related Parties (or, if such Partner or any Related Party is treated as a partnership for federal income tax purposes, its direct or indirect owners) as a result of the forfeiture of such Guarantor's interest in the Escrow Account (such forfeiture being deemed to produce the maximum tax benefit), as calculated by the Partnership's accountants, which tax benefit is attributable solely to the making of such payment or forfeiture and which benefit shall be determined after first taking all other items of income, gain, loss, deduction or credit (relating to the Partnership only) of such Guarantor and his or her Related Parties or any Related Party into account.

(v) If a Guarantor or one of his or her Related Parties owns an interest in the General Partner through a wholly owned subsidiary or other entity, such interest shall be treated as if owned directly by such Guarantor for purposes of this Guarantee. If any partner of the General Partner is not a Guarantor or a Related Party of a Guarantor, the interest of such partner in the General Partner shall be treated as if owned pro rata by each Guarantor for purposes of this Agreement.

2. *Representations and Warranties.* Each Guarantor represents and warrants to the Partnership and to each Limited Partner that this guarantee has been duly executed and delivered by such Guarantor and constitutes the legal, valid and binding obligation of such Guarantor enforceable against such Guarantor in accordance with its terms (subject to the effects of applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing).

3. *Collection Expenses.* If the Partnership or any Limited Partner is required to pursue any remedy against a Guarantor hereunder, such Guarantor shall pay to the Partnership or such Limited Partner, upon demand, all reasonable attorney's fees and expenses and all other costs and expenses incurred by such party in enforcing this Guarantee against such Guarantor, subject to presentation of such evidence of incurrence of such expenses as such Guarantor may reasonably request.

4. *Successions or Assignments.* This Guarantee shall inure to the benefit of the successors or assigns of the Partnership and the Limited Partners who shall have, to the extent of their interest, the rights of the Partnership and the Limited Partners hereunder. This Guarantee is binding upon the Guarantors and their successors and permitted assigns. The Guarantors are not entitled to assign their obligations hereunder to any other Person without the written consent of a Majority in Interest of the Limited Partners, and any purported assignment in violation of this provision shall be void.

5. *Notices.* All notices and other communications provided for herein shall be in writing and shall be deemed to have been duly given if delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid, to the party to whom it is directed:

(a) If to the Guarantors:

c/o JER Real Estate Qualified Partners III, L.P.
1650 Tysons Boulevard, Suite 1600
McLean, Virginia 22102

or at such other address as a Guarantor shall have specified by notice in writing to the Partnership and the Limited Partners.

(b) If to the Partnership:

JER Real Estate Qualified Partners III, L.P.
1650 Tysons Boulevard, Suite 1600
McLean, Virginia 22102

(c) If to a Limited Partner, to such address as shall be set forth as the address of such Limited Partner in the books and records of the Partnership.

6. *Miscellaneous.* (a) This Guarantee may not be amended, modified, released or discharged with respect to any Guarantor except with the written consent of limited partners representing 80%, in the aggregate, of the Interests of the Limited Partners and the interests of the limited partners of all Parallel Funds and such Guarantor.

(b) This Guarantee and the rights and obligations each of the Guarantors, the Partnership and the Limited Partners shall be governed by and construed in accordance with the laws of the State of New York.

(c) This Guarantee may be enforced by any Limited Partner as a third-party beneficiary of this Guarantee and the obligations of each of the Guarantors hereunder.

IN WITNESS WHEREOF, each of the Guarantors have caused this Guarantee to be duly executed and delivered as of the day and year first written above.

Joseph E. Robert, Jr.

Investor Advisory Committee

Section References

1. Article I, Investor Advisory Committee
2. Article I, Organizational Expenses
3. Section 2.7
4. Section 2.11(a), (b)
5. Section 2.12
6. Section 2.13
7. Section 3.2(e)(i)
8. Section 4.4(b)
9. Section 4.6(b)
10. Section 4.6(f)
11. Section 4.7(c)
12. Section 5.4
13. Section 6.3(a)(ix)
14. Annex A

EXHIBIT

A Investor Advisory Committee Section References

ANNEXES

A Investment Guidelines

B Form of Guarantee