Bond Impairment

The original developer of Waterford Place Phase II, is in the process of divesting its assets and unwinding its business, which triggered defaults under our guarantees with the developer. Additionally, we have determined there has been a softening of this market. The equity investor, an affiliate of Related, has agreed to release and transfer its ownership to a nominee of our Company, who will foreclose on the Underlying Property. We have determined this bond is impaired, and as such we have stopped accruing interest and have written down the bond to its estimated fair value of approximately $900,000, taking a loss on impairment of approximately $1.8 million during the quarter ended September 30, 2003. We determined the fair value of the property as equal to the appraised value of the land plus the cost of certain improvements made to date, discounted for the softening in the market.

During the second quarter of 2001, the borrowers of Lexington Trails failed to make the regular interest payments. As a result, we determined the bond was impaired and stopped accruing interest, and have written down the bond to its estimated fair value of approximately $5.5 million and took a loss on impairment of $400,000. During the fourth quarter of 2001, we caused the trustee, for the benefit of us, to foreclose on the Underlying Property. During the fourth quarter of 2002, we began marketing the Underlying Property for sale, and we wrote this bond down to its estimated fair value of $4.5 million resulting in a recorded loss of $920,000. Lexington Trails was sold on December 31, 2003, for a total sales price of approximately $4,412,500 million, which resulted in a loss of $630,695.

NOTE 4 • Investment in Partnerships

Investments in partnerships at December 31, 2003 consisted of:

(In thousands)	2003
Investment to acquire equity interests	$24,644
Investment in properties in development	1,994
	$26,638

A subsidiary wholly owned by Related acquires equity interests in property ownership entities on a short-term basis, and also invests funds with third party developers to develop properties for inclusion in offerings to investors, which are arranged by Related. Such amounts are expected to be distributed from the proceeds of the equity and debt financing when the investment fund has closed. The developer has also guaranteed repayment of these investments to Related. Substantially all of these investments are pledged as collateral for Related's borrowings under the warehouse facility.

Related also invests funds in affiliated entities, whereby subsidiaries of Related co-develops properties to be sold to investment funds. Development investments include amounts invested to fund pre-development and development costs. Investment funds organized by Related acquire the limited partnership interests in these properties. Distributions of the development investment by the affiliated entity is expected to be made from various sources attributable to the properties, including capital contributions of investments funds, cash flow from operations, and/or from co-development partners, who in turn have cash flow notes from the properties. In connection with Related's co-development agreements, affiliates of CharterMac issue construction completion, development deficit guarantees and operating deficit guarantees to the lender and investment funds (for the underlying financing of the properties) on behalf of Related.

NOTE 5 • Other Investments

Investment in ARCap

On October 18, 2001, our Company, through CM Corp., purchased 739,741 units of Series A Convertible Preferred Membership Interests in ARCap Investors, LLC at the price of $25 per unit, with a preferred return of 12%. The carrying value of our interests in ARCap at December 31, 2003 was $19,054,409, which is included in other assets.

ARCap Investors, LLC was formed in January 1999 by REM/CAP and Apollo Real Estate Investors to invest exclusively in subordinated CMBS. Since then, ARCap has changed its focus and has begun to provide portfolio management services for third parties.

NOTE 6 • Deferred Costs

The components of deferred costs are as follows:

	Dec 31,	
(Dollars in thousands)	2003	2002
Deferred bond selection costs [1]	$ 46,479	$ 34,810
Deferred financing costs	11,170	8,030
Deferred costs relating to the issuance of preferred shares of subsidiary (see Note 9)	10,445	10,445
Deferred costs relating to acquisition of Related	--	2,483
Other deferred costs	3,777	1,376
	71,871	57,144
Less: Accumulated amortization	(13,463)	(8,451)
	$ 58,408	$ 48,693

(1) This primarily represents the 2% bond selection fee paid to the Manager prior to our acquisition of Related (see Note 12).