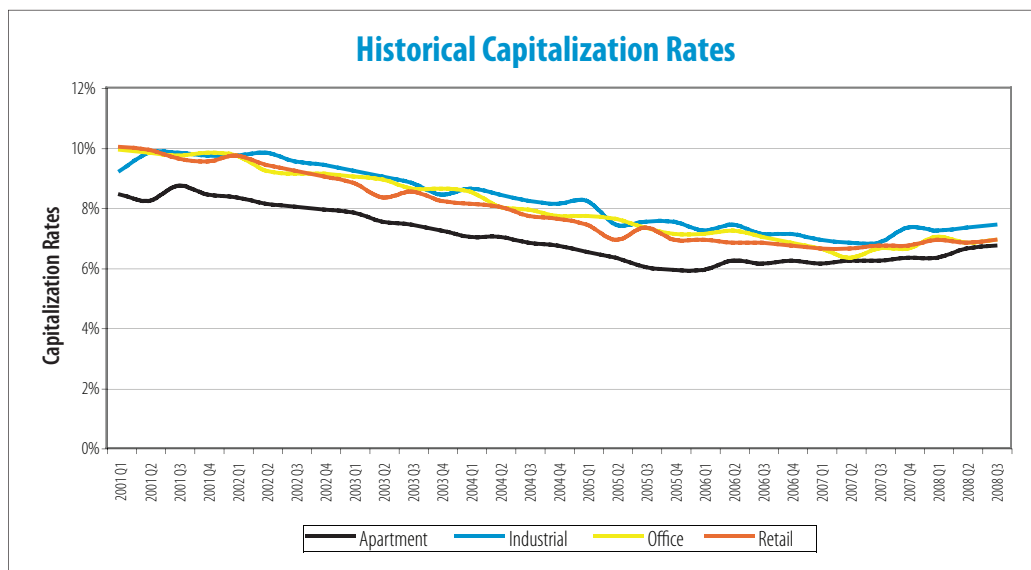


# Grandbridge Real Estate Capital

## Capital Markets Update | 11.10.08

Today, investors face the challenge of navigating through a credit and economic environment that has not been experienced for nearly 80 years. This credit environment has already claimed some of the world's largest financial institutions: Bear Stearns, Lehman Brothers and Wachovia. The future of semi-private government-sponsored enterprises Fannie Mae and Freddie Mac is also unclear while the Federal Housing Finance Agency runs the daily business operations under the conservatorship. The credit crisis has spread from Wall Street to Main Street and is now affecting nearly all businesses and individuals. Consumers are worried and businesses which depend on available credit to run daily operations suddenly find banks and investors unwilling to lend – at any cost. The difficult process of de-leveraging assets has only begun and will continue into 2009. Global bank regulators and governments have used unprecedented resources in an effort to save the financial system and the credit freeze is only beginning to thaw. For commercial real estate owners, the age of adding value through cap rate compression has passed and value will be created through recovery, leasing and pro-active management of real estate assets.



\*Source: Real Capital Analytics

The sliding global economy is a separate, but just as formidable, challenge to investors. Promising fundamentals had boosted real estate valuations until recently, but with consumer confidence falling, equity portfolio and housing values shrinking and the increased cost of borrowing, few businesses are looking to expand and property pro formas are less optimistic. Fortunately, most markets have not been over developed as construction costs kept speculative building in check. The challenge will be on the demand-side and the economic outlook will have the biggest impact on how businesses choose to expand and lease space. Delinquency rates for commercial mortgages remain well-below historic norms but are expected to rise in coming months as underlying fundamentals deteriorate. In these volatile times investors need to survey the environment and make the best of opportunities.

The election of Senator Obama and decisive win for Democrats provide the framework for what will dominate the political agenda in 2009. The Mortgage Bankers Association (MBA) expects the following issues to be in play:

- Assistance for at-risk homeowners
- Bankruptcy cram downs for residential mortgages
- Tax assistance for homeowners/buyers
- Additional federal assistance for rental housing
- Financial services regulatory reform
- Future of Fannie Mae & Freddie Mac
- Housing market stabilization/stimulus proposals

Economic stress and fiscal restraints will make the policy-making environment challenging, particularly as factions within the Democratic Party vie to influence the new president. But appointments in the coming weeks will provide direction as President-elect Obama names a new HUD Secretary, Federal Housing Commissioner and Secretary of the Treasury. The MBA also expects that one of the first matters to be considered will be jobs/stimulus legislation if not passed prior to inauguration. The future of our financial system along with other challenges such as energy, budget, taxes, wars in Afghanistan and Iraq will make 2009 another demanding year.

Grandbridge Real Estate Capital is best-positioned to succeed in this market because of its vast breadth and depth of capital sources. Grandbridge represents over 50 insurance companies and portfolio lenders, is a Fannie Mae DUS® lender and Freddie Mac Program Plus® seller/servicer and a MAP-approved FHA lender for construction loans, seniors housing, assisted living and subsidized housing properties. BB&T Real Estate Funding, a proprietary program, is an active acquisition/bridge lender that will fund nearly \$250 million in 2008. BizCap is an exclusive Grandbridge program and is positioned to provide financing to single tenant and owner occupied properties. Grandbridge real estate finance professionals have also successfully negotiated and closed nearly \$500 million with local and regional banks during the market disconnect. No matter your debt or equity needs during changing times, Grandbridge has the best resources available for every transaction.

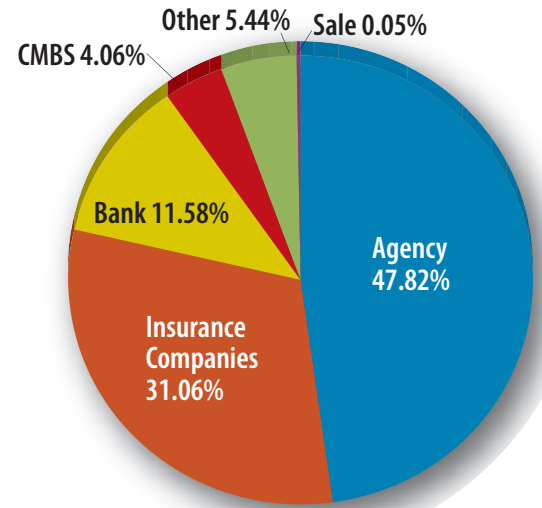
Grandbridge recently hosted the annual Grandbridge Investor Conference in Clearwater, Florida. Attendees at the conference included over 90 executives and investment officers representing 46 different capital sources along with Grandbridge professionals from 26 production offices and proprietary programs. In general, lenders at the Conference indicated they will take a guarded approach going into 2009. During a survey session, 50% of investors answered that they are currently quoting deals, while the other half said they were out of the market until 2009. When asked about their expected loan volume for 2009, 44% responded that they expected the same amount or more than 2008, the remaining investors were less optimistic. While lending is expected to slow as investors work through the economic uncertainty, it was clear that investors are committed to commercial real estate and continued success with Grandbridge Real Estate Capital.

Fannie Mae and Freddie Mac continue to be the most active lenders in this environment. The FHFA conservatorship has recognized the importance of all aspects of these multifamily businesses and emphasized that, "support for multifamily housing finance is central to the Enterprises' public purpose." The fact that multifamily continues to be one of the most profitable business lines for these Enterprises reinforces their appetite for apartment transactions. Grandbridge continues to originate Fannie Mae and Freddie Mac transactions at competitive leverage (up to 80% loan to value) and rates in the 6% to

6.5% range. The conservatorship expects these multifamily programs to continue to be active, although rates are always subject to change, through 2009. The future and direction of these Enterprises will become clearer once the new administration is in place in Washington. The decision to make these agencies public entities or to privatize them will cause program parameters to adjust. In short, multifamily borrowers continue to have very attractive lending options, but it remains unclear how long this will last.

Insurance company and portfolio lenders remain active, although many lenders have either reached their real estate allocations for 2008 or are waiting for market clarity. Also challenging is that recent corporate bond issuances have yielded over 8%; other asset classes compete with commercial real estate programs for funding. Portfolio lenders are particularly concerned about the amount of leverage they are able to provide amidst a market with increasing capitalization rates. In order to mitigate refinance risk they are limiting proceeds to 60-70% debt to value because they expect cap rates to continue to increase and values to fall over the short term. Insurance companies continue to provide historically attractive interest rates by quoting 6.5% to 7.5% today. While these rates seem high compared to the aberration that conduit lenders provided in the last two to three years, current rates are relatively low when compared to rates over the past 20 years. With more opportunities than available funds, portfolio lenders will continue to choose quality real estate and established sponsors.

Despite continued volatility in the marketplace, Grandbridge is well-positioned to provide access to the most competitive debt and equity available for all commercial real estate transactions. In fact, Grandbridge continues to expand and recently opened its new Chicago office including the addition of three accomplished commercial real estate finance professionals. During the first three quarters of 2008 Grandbridge signed up and closed 483 loans totaling more than \$3.96 billion. Grandbridge's servicing portfolio totals \$22.589 billion with 4,850 loans at the end of October 2008. This portfolio is holding up well during these challenging times with a delinquency ratio of .33%.



**Grandbridge Production by Lender Type as of 10.31.08**

