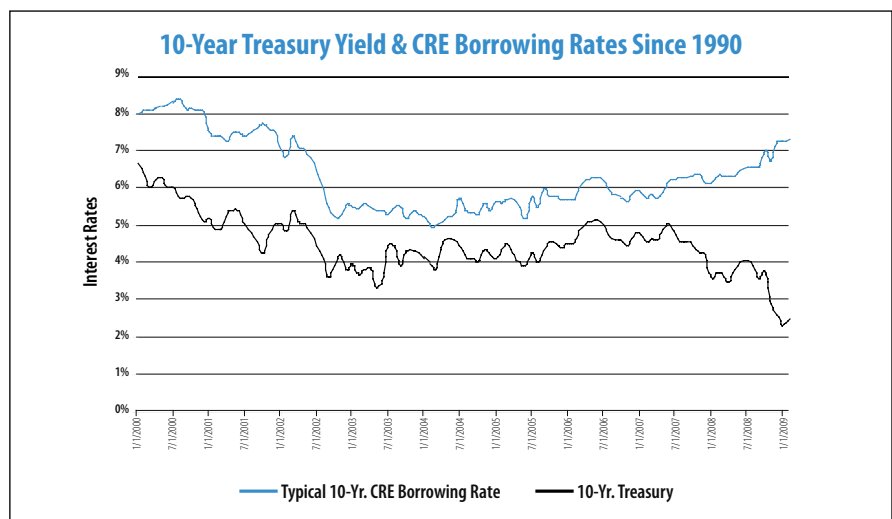


Grandbridge Real Estate Capital Capital Markets Update | 2.20.09

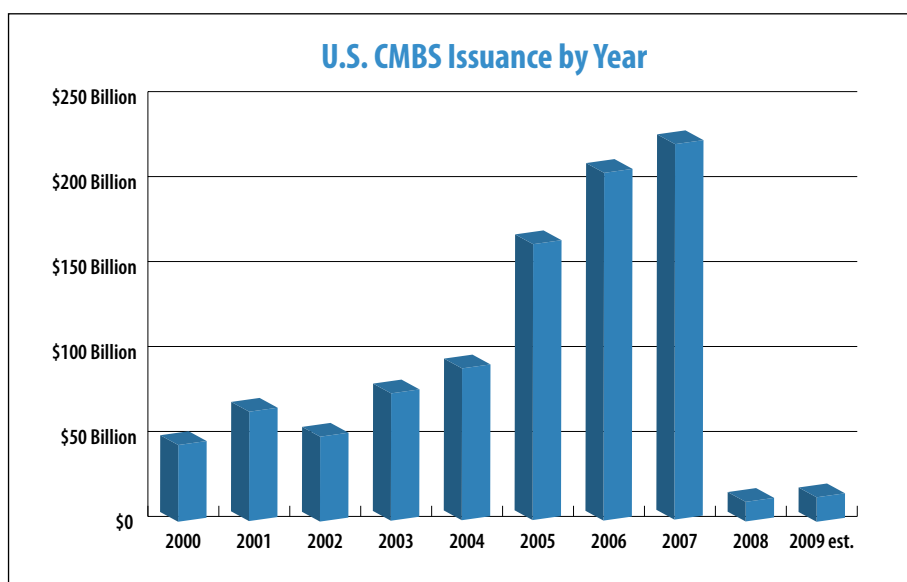
The United States recession, which officially began in December 2007, continues to present significant challenges to the commercial real estate market. The loss of 2.6 million jobs in 2008, continued trouble in the residential housing market and retail store closings exacerbate the jittery financial and equity markets. Nearly all asset values, save U.S. Treasuries, have experienced downward pressure over the last year and economic headwinds will continue to pose a challenge in 2009. Many capital sources that traditionally provided financing to owners and developers have stepped back to survey the changing landscape before deploying capital. Investors are still waiting to see the impact of unprecedented federal government intervention in the markets along with what additional tools the new administration and Congress will use to confront the recession. While news headlines remain negative, new programs by the U.S. Government hope to ease stress in real estate lending markets. Notably, the Federal Reserve will continue to purchase securities backed by Fannie Mae and Freddie Mac, keeping multifamily lending rates attractive. Similarly, Treasury Secretary Geithner announced that part of the remaining \$350 billion of TARP funds renamed "Financial Stability Plan" will be used to jumpstart securitized and secondary lending arenas and will include commercial mortgage-backed securities as acceptable collateral for government loans. Investors are currently waiting for more details regarding the functionality of the programs, but added liquidity will have a positive impact on the commercial real estate industry.

Despite the challenging market, Grandbridge continues to find debt and equity financing for clients and remains optimistic about the future. To this point, Grandbridge is pleased to announce the acquisition of commercial real estate mortgage banking firm Live Oak Capital of Houston, Texas. The new partnership will make Grandbridge Real Estate Capital one of the largest commercial mortgage banking firms in the industry. Live Oak's expertise in institutional equity and structured finance transactions will add to the broad investor base of more than 100 capital providers at Grandbridge. Together these firms originated 548 loans totaling \$4.5 billion in 2008. The size of the debt transactions ranged from \$520,000 to over \$250,000,000. At the end of the year the Grandbridge servicing portfolio totaled \$23.9 billion with more than 5,000 loans; the portfolio delinquency rate was 0.37 percent. Even in uncertain times, Grandbridge continues to transact with active commercial real estate lenders.

The current market environment presents opportunities for real estate investors able to navigate the complex and changing landscape. Market fundamentals and falling valuations have stressed commercial real estate and uncertainty remains as the global recession deepens. However, as the accompanying graph illustrates, lending rates for most commercial real estate loans remain close to the historic average and capital is still available for quality transactions.



Fannie Mae and Freddie Mac continue to provide extremely attractive rates and terms for acquisitions and refinancing of multifamily properties. Today, agency lenders are able to finance up to 80 percent of property value and premier properties are able to attain interest-only periods. Interest rates for multifamily transactions today are close to 6 percent (more than 1 percent less than other asset types) and unlike other capital providers; the agencies' appetites for writing new loans remain robust. The Federal Housing Finance Agency, the appointed regulator of the agencies, recently announced that the lenders would be allowed to increase their portfolios until December 2010 when they will begin reducing the portfolios by 10 percent annually. This decision is positive news for multifamily borrowers and will ensure liquidity in the market for the near-term. Grandbridge is one of only a few mortgage banking firms that is a Fannie Mae DUS® (Delegated Underwriting and Servicing) lender, an approved Freddie Mac Program Plus® seller/servicer in several markets and a MAP-approved FHA lender for construction loans, seniors housing, assisted living and subsidized housing properties. With in-house underwriting teams and strong relationships Grandbridge is able to provide the most direct access to active multifamily lending partners. In 2008 Grandbridge originated 174 transactions with Fannie Mae, Freddie Mac and FHA totaling \$1.9 billion in debt financing.



The commercial mortgage-backed securities (CMBS) market in the U.S. grew to \$230 billion in 2007 before crumbling to only \$12.1 billion in 2008. A recent survey by *Commercial Mortgage Alert* noted that CMBS issuance in 2009 is expected to be under \$20 billion. All hopes for a CMBS recovery last year were dashed, as even the most historically active CMBS teams disbanded. One CMBS executive recently noted, "The infrastructure of our industry has been destroyed...and I think it is going to continue for another two or three years." The fall of the CMBS market is the main driver behind the current deleveraging of commercial real estate. The resulting vacuum means investors with capital are able to tighten lending standards and choose the most conservative transactions.

In comparison to annual CMBS production of \$230 billion in 2007 and \$202 billion in 2006, insurance companies have traditionally written \$50 billion in new business each year. Insurance companies are expected to originate \$40 billion in 2009, significantly less than 2008. Most insurance company lenders will target longer term (10-year), fixed-rate transactions and will focus on the property's location and the borrower's financial position. Lenders are especially cautious of lending more than 60 percent in the current environment of rising capitalization rates; furthermore, some insurance companies are using a minimum 8 percent cap rate for property valuations. Most lenders have also changed their quoting methodology due to the volatility of U.S. Treasuries, changing from spreads on Treasuries to targeting all-in loan rates between 7 percent - 8.5 percent.

Institutional Lenders — What to Expect in 2009

Grandbridge surveyed 39 institutional lenders about their outlook for 2009:

- 67% of lenders are in the market and funding transactions,
- 7% of lenders expected to return to the market in Q2 2009, and
- 26% of lenders stated they were unlikely to originate new business any sooner than 2nd half 2009.

Also, during the second week of February and in conjunction with the Mortgage Bankers Association annual Commercial Real Estate Finance Conference, Grandbridge Real Estate Capital finance professionals met with over 100 lending sources and discussed their outlook for 2009. The response from most investors was that they are actively pursuing business and see great opportunities in the coming year. Markedly, some institutional lenders are expanding their programs and are eager to write new loans with historically attractive interest rates, albeit in a tighter underwriting environment compared to the aberration in recent years.

While lenders are eager to write conservatively underwritten loans, alternative investments compete for priority. Many insurance companies have put aside funds from their 2009 allocations in order to refinance maturities within their portfolios before borrowers face balloon payment difficulties. Another challenge is that insurance companies' investment departments must balance their allocations to real estate with other investment vehicles that have lost significant value; their real estate investments as a percentage of total assets might be above their charter. Further reducing funds available for new originations is a focus on relative value, i.e., some insurance company platforms are using their allocations to invest in credit-rated corporate bonds yielding 9 percent, or older vintage AAA rated CMBS paper that is currently trading at yields above 10 percent. Insurance companies continue to have an appetite for writing new commercial real estate loans, but clearly the opportunities presented to them will outweigh available funds. Grandbridge Real Estate Capital placed loans with 45 different insurance company lenders in 2008; access to a vast number of capital providers is more important than ever.

Stress on commercial/multifamily mortgages has continued to rise over the past year. Delinquency rates remain low by historical standards, but pressure is building. CMBS delinquency rates on loans delinquent 30+ days rose from 0.64 percent to 0.88 percent in December and 90+ day delinquency rates for commercial/multifamily mortgages held by banks and thrifts rose from 1.18 percent to 1.38 percent, according to Mortgage Bankers Association. Delinquencies remain below market expectations, but economic and credit market stress will continue to impact commercial/multifamily mortgage performance in coming months.

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. Grandbridge's broad investor base is one of the strongest in the industry and includes leading insurance companies, pension fund advisors, and commercial banks as well as proprietary products. The company is a Fannie Mae DUS® (Delegated Underwriting and Servicing) lender, a Freddie Mac Program Plus® seller/servicer and an active participant in multifamily products insured by the Federal Housing Administration (FHA).