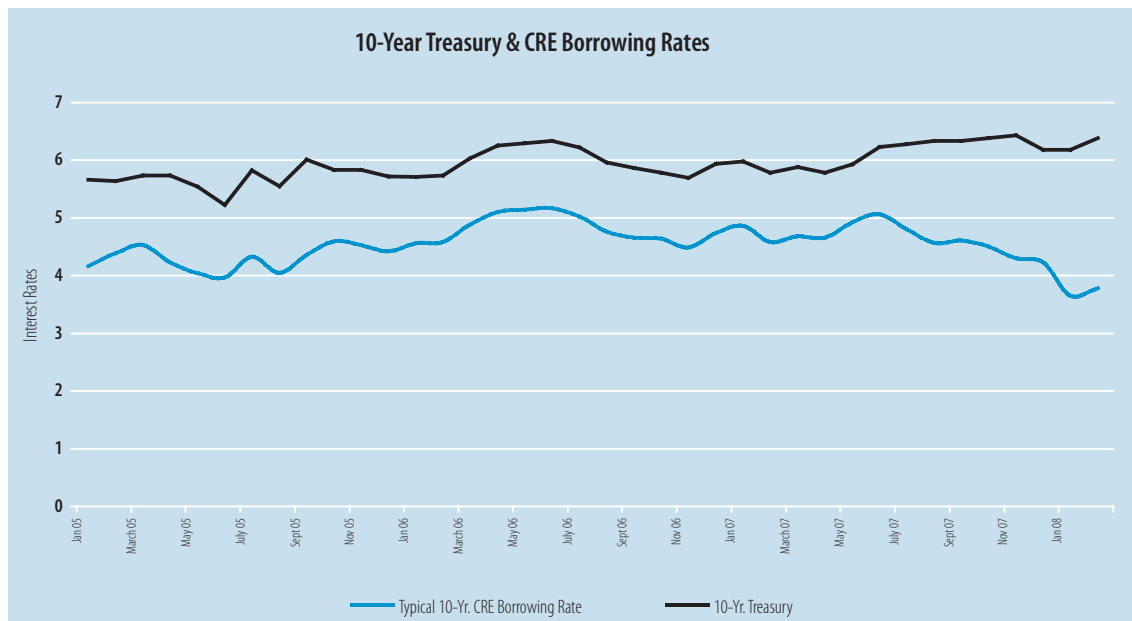


# Grandbridge Real Estate Capital Capital Markets Update | 2.15.08

The credit markets continue to experience a period of historic volatility. Investors of all types are repricing risk and lenders ranging from local banks to CMBS lenders are becoming more hesitant to commit money to real estate transactions. The market is reacting to a confluence of events including: on-going downgrades of residential real estate-backed bonds and other asset backed securities, the slowdown of the U.S. economy and fear of recession, decline in home values and questions regarding the upcoming election and implications on policy. The Dow Jones Average has lost nearly 13% since its high in October 2007 and the financial sector has lost 20% of its market value during the same period. The biggest challenge real estate lenders face is the accurate pricing of credit spreads. Commercial real estate fundamentals remain strong, but fear of recession along with the collapse of the conduit market has put more traditional lending sources (such as agency, insurance company and portfolio lenders), in a position with less outside competition and more investment opportunities. Real estate lenders have adjusted their spreads significantly over the last six months, but lending rates continue to be attractive, even compared to the last several years. Today, rates have remained low in most part because the yield on the 10 year Treasury, the benchmark used for mortgage funds, has remained low during these volatile times.

With the exception of U.S. Treasuries, most lending rates have increased across the credit spectrum. Investors have pulled back from buying securities backed by residential and commercial real estate, corporate debt, auto loans, credit card debt, municipal bonds and student loans. Traditional real estate investors look at these investments as alternatives to originating whole loans because of their security, liquidity and relative yield compared to a commercial loan that is held for five to 10 years.



In this period of global risk pricing adjustment, many insurance companies are looking to other investment opportunities in lieu of originating whole real estate loans because they cannot accurately price commercial real estate risk. Many insurance companies see greater relative value in investing in securities backed by a credit rated corporation than individual real estate transactions when the yield on the investment is similar. The following table displays some recent corporate debt offerings.

## Corporate Borrowing Rates

Corporation	Credit Rating	Credit Spread	Rate 2.15.2008
Wal-Mart Stores, Inc.	AA	167 Over 10-YR Treasury	5.45%
Target Corp.	A	235 Over 10-YR Treasury	6.13%
Cargill	A	222 Over 5-YR Treasury	4.97%
Verizon	A	178 over 10-YR Treasury	5.56%
Ecolab Inc.	A	175 Over 7-YR OTR Treasury	4.95%
Caterpillar	A	150 Over 5-YR Treasury	5.28%

Multifamily borrowers continue to receive much better rates and terms compared to borrowers of other property types. Fannie Mae and Freddie Mac have not increased their spreads in lock step with other lending sources over the past 6 months; rates and terms remain extremely attractive today. The chart below shows general pricing for multifamily properties.

## Fannie Mae Rates as of 2.15.2008

Term / YM Period	Treasury	80% / 1.20X		65% / 1.35X		55% / 1.55X	
		Spread	Rate	Spread	Rate	Spread	Rate
5 / 4.5	2.720%	2.605%	5.325%	2.425%	5.145%	2.225%	4.945%
7 / 6.5	3.140%	2.375%	5.515%	2.235%	5.375%	2.075%	5.215%
9 / Fixed + 1	3.560%	2.265%	5.825%	2.125%	5.685%	1.965%	5.525%
10 / 9.5	3.770%	2.175%	5.945%	2.035%	5.805%	1.875%	5.645%
30 / 15	4.600%	2.315%	6.915%	2.175%	6.775%	2.015%	6.615%

Grandbridge Real Estate Capital is a Fannie Mae Delegated Underwriting and Servicing (DUS<sup>®</sup>) lender, meaning it is one of only a few groups with ability to underwrite and originate loans on behalf of Fannie Mae. As a DUS lender, Grandbridge offices work directly with in-house Fannie Mae department staff to work quickly and efficiently on multifamily transactions. DUS lenders also provide borrowers with the most competitive lending rates available. Grandbridge is also one of a limited number of Freddie Mac Program Plus<sup>®</sup> seller/servicers. Freddie Mac has proven to be a reliable and consistent investor for multifamily loans. The Early Rate Lock feature of the Freddie Mac program allows a borrower to take the interest rate risk out of the deal very early in the process. This is extremely valuable in today's volatile market.

Grandbridge Real Estate Capital is also well positioned in the marketplace with more than 50 insurance company relationships. Insurance companies and portfolio lenders continue to see a large number of loan opportunities because of the absence of the CMBS market. Many portfolio lenders are adjusting to the changing credit environment and have increased their spreads or moved to the sidelines until stability returns to the market. With so many opportunities and limited funds, insurance companies are choosing deals that are more conservatively underwritten and are targeting lower leveraged loan requests. Lenders are targeting 55% to 70% loan-to-value requests, and in general insurance company spreads have moved out to 225 to 275 basis points over the 10-year Treasury — equating to borrowing rates of 6% to 6.5%. In this changed environment, lenders do not have to stretch for deals due to the large number of opportunities and alternative investments. One strategy being used by insurance companies is the purchase existing CMBS paper. Due to its loss in value, commercial mortgage-backed securities can carry a yield up to eight times that of one year ago. When insurance companies purchase these assets, it reduces the funds available to make new loans. Many insurance programs continue to originate commercial loans and coupons remain attractive, but the borrowing environment has changed.

The CMBS market continues to erode. There were no securitizations in January, the first time since CMBS became a potent market in mid-1990s. The index (CMBX) that tracks the value of previously issued CMBS paper is near an all time low. While real estate fundamentals remain robust and CMBS delinquencies are still less than 0.5%, investors feel that underwriting over the past two years has been overly aggressive and believe delinquencies will rise. On February 13, the first CMBS deal of 2008 was presented to investors. The sale of this securitization will give lenders a good indication of where the market is heading and influence credit spreads from all commercial lending sources. The deal is more conservative and lower leveraged than other CMBS transactions over the past two years. The AAA rated bonds priced at 235 basis points over the 10-year swap rate; 35 basis points higher than expected. One year ago AAA CMBS paper priced at 25 bps over swaps. It is expected that lenders will continue to sell CMBS deals and accept lower returns in exchange for clearing their balance sheets of approximately \$100 billion in commercial loans and CMBS paper. Today, lenders are quoting deals 450 to 500 basis points over the 10-year Treasury and very few deals are being executed.

The chart below displays the amount of commercial mortgage backed securities issued over the past seven years and the amount projected in 2008. Other capital sources: agency lending, banks and insurance companies will be asked to fund more loans and more dollars as a result of this void.

Despite continued volatility in the marketplace, Grandbridge Real Estate Capital is well positioned to provide access to the most competitive debt and equity available for all commercial real estate transactions. Although the borrowing environment is more challenging than recent years, rates remain attractive. Grandbridge Real Estate Capital's broad investor base is one of the strongest in the industry and includes leading insurance companies, CMBS lenders, pension fund advisors, and commercial banks as well as proprietary products. The company is a Fannie Mae DUS® lender, a Freddie Mac Program Plus® seller/servicer and an active participant in multifamily products insured by the Federal Housing Administration (FHA). Grandbridge placed nearly \$7 billion in real estate transactions in 2007 and has a servicing portfolio totaling \$21 billion.

