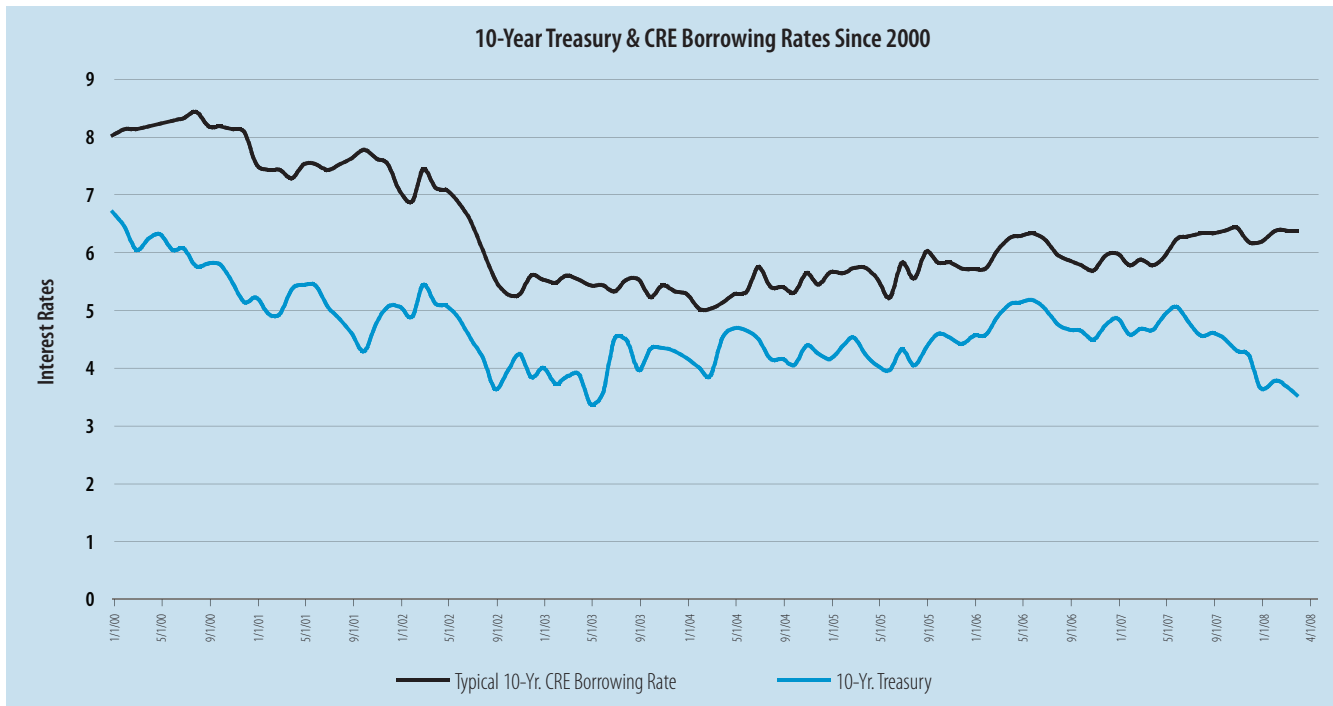


# Grandbridge Real Estate Capital

## Capital Markets Update | 4.10.08

Global credit conditions continue to deteriorate as economists and investors contemplate the state of the economy and risks associated with the Federal Reserve's strategy. Debt and equity markets remain volatile and risk premiums among all asset classes have continued to fluctuate as investors try to understand the effects of the housing crisis, sub-prime debt, failing Wall Street institutions, hints of a recession, increased energy costs, consumer spending, political uncertainty and many other unknown factors. Investors and lenders have little confidence in their ability to accurately price risk during this time of instability. However, on the positive side, commercial real estate fundamentals remain strong and borrowers continue to access debt at historically attractive rates.

The yield on U.S. Treasuries has been the silver lining amidst recent economic uncertainty. While borrowing spreads have increased since the beginning of the year, much of this has been offset by the decrease in U.S. Treasuries as investors seek safety. Recently, the yield on the 10-year U.S. Treasury was 3.35%—a five year low. The challenges currently confronting borrowers could be exacerbated if Treasury yields increase more quickly than borrowing spreads decrease. Many large corporations including GE, AT&T, Oracle and others have been issuing new 10- and 30-year bonds because they expect the cost of borrowing funds in the future will increase. According to Bloomberg data, Target Corp. raised \$4 billion to buy back stock in its biggest bond offering. The debt sale included \$1.25 billion of 10-year notes yielding 235 basis points above the comparable Treasury note. That's 162 basis points more than Target paid on similar debt issued in April 2007. Similarly, the average spread on investment grade paper issued in the last week was 292 basis points over the comparable U.S. Treasury. Commercial real estate borrowers will face the same challenge if investors continue to demand higher risk premiums and US Government yields rise.



Today, commercial borrowers face a challenge of having a decreased supply of funds and fewer investors willing to lend to them. Conduits, which had been funding roughly 60% of all commercial real estate loans over the past four years, are on hiatus while buyers of these bonds deal with the uncertainty in the market. This leaves insurance companies, portfolio lenders, government sponsored entities and banks as the primary sources of real estate debt. Insurance companies, more traditional lenders, have a fixed amount of funds available to them. The increased demand on this limited supply has allowed insurance companies to raise their spreads, limit loan amounts, shorten amortization and focus on the most conservative deals. Further, some insurance companies have temporarily stopped lending because the increased demand has drained their yearly allocation of real estate dedicated funds prematurely. Insurance companies, and government sponsored entities for multifamily, continue to offer the most competitive transactions in the marketplace with no exposure to market risk for the borrower once the deal is under application and rate locked.

Fannie Mae remains the most active and aggressive lender for multifamily borrowers. Grandbridge Real Estate Capital's Fannie Mae Department continues to close transactions that include limited interest-only terms and interest rates below 6%. Fannie Mae has been a stable source of funds for multifamily throughout the recent period of market unpredictability.

**Fannie Mae Rates as of 4.10.2008**

Term / YM Period	Treasury	80% / 1.25X		65% / 1.35X		55% / 1.55X	
		Spread	Rate	Spread	Rate	Spread	Rate
5 / 4.5	2.57%	2.63%	5.20%	2.45%	5.02%	2.25%	4.82%
7 / 6.5	2.93%	2.42%	5.35%	2.28%	5.21%	2.12%	5.05%
9 / Fixed + 1	3.28%	2.30%	5.58%	2.16%	5.44%	2.00%	5.28%
10 / 9.5	3.46%	2.22%	5.68%	2.08%	5.54%	1.92%	5.38%
30 / 15	4.31%	2.32%	6.63%	2.18%	6.49%	2.02%	6.33%

\*These indicative spreads are for immediate funding, Actual / 360 pricing and are intended to serve as a general indication. Actual spreads can vary based upon actual deal terms

As a DUS® Lender, Grandbridge offices work directly with in-house Fannie Mae department staff including underwriters, legal teams, insurance and third-party specialists to work quickly and efficiently on multifamily transactions. While other lenders have established much more conservative underwriting, Fannie Mae continues to provide 30-year amortization schedules with interest-only terms available for quality real estate transactions. Fannie Mae can also provide supplemental loans; allowing borrowers to access equity in the deal without taking out secondary financing during the term of the loan.

Grandbridge is also one of a limited number of Freddie Mac Program Plus® 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. Freddie Mac and Fannie Mae provide borrowers with the most competitive lending rates available for multifamily transactions today.

Due in part to the reduced supply of funds from CMBS and portfolio lenders, local and regional banks are beginning to fund a larger share of commercial real estate loans. These banks can be very competitive with shorter term money; but borrowers often incur recourse, increased interest rate risk, limited loan size and term flexibility. Grandbridge is well connected with active bank lenders and will engage these sources while evaluating the best capital source for a real estate transaction.

The CMBS market remains dormant since its collapse in late 2007. Year-to-date issuance is only \$5.1 billion (most of which was originated in 2007) compared to \$61.2 billion during the same period last year. An \$887 million deal by Credit Suisse and Morgan Stanley is set to close on April 18th. The most highly rated portion priced at nearly 4% above ten year treasuries; one year ago yields on comparable triple-A-rated bonds would have been less than 1% above this benchmark. There simply is no stability and there are no investors in the market. Nearly every CMBS lending platform has undergone considerable staff reductions and industry experts expect another 6 -12 months until stability and deal flow returns to the market. Scant trading utilizing the CMBX index continues to hamper the primary market as non-real estate investors use the index to wager that the commercial real estate market will react similarly to the fallout experienced in the residential housing market. Without any new CMBS issues and only the battered CMBX index to use as a reference, CMBS lenders are reluctant to originate any new transactions. Today, some CMBS programs are originating large deals (\$100 million) with increased pricing as there is little capital available from other sources.

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. Although the borrowing environment is more challenging than recent years, rates remain historically attractive. Grandbridge'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® (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). Grandbridge placed nearly \$7 billion in real estate transactions in 2007 and closed 121 loans totaling more than \$875 million during the first quarter of 2008. The firm's pipeline remains strong with over \$2.3 billion in debt and equity assignments. Grandbridge's servicing portfolio of 4,682 loans currently totals \$21 billion.