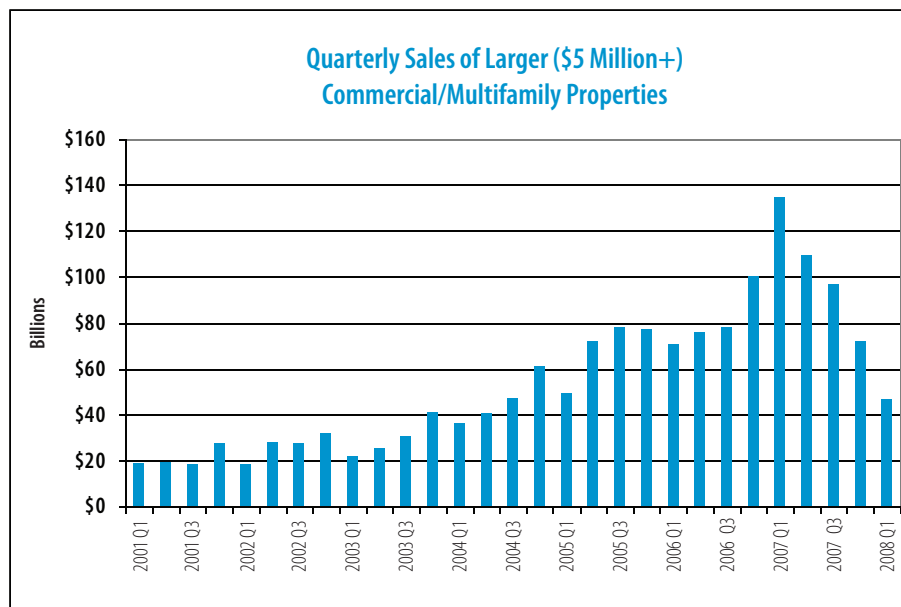
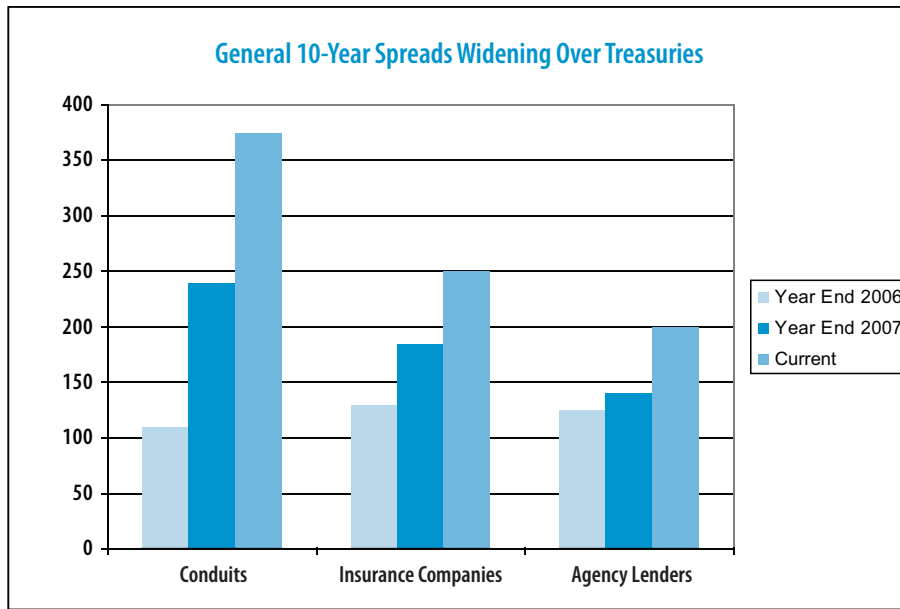


Grandbridge Real Estate Capital Capital Markets Update | 6.10.08

The first five months of 2008 have been a historically slow period in terms of commercial real estate transactions. Sales of commercial properties were down 71% in the first quarter compared with the high of \$135 billion during the same period a year earlier, according to Real Capital Analytics. A recent Standard and Poor's report noted that the value of commercial buildings fell 1.03% between January and February, the largest monthly decline since 1993. Real estate investors are in a somewhat precarious position as they project where property values will ultimately settle once economic volatility subsides given conflicting news from rating agencies, brokerages, the Federal Reserve and Wall Street. In general, quality real estate in larger markets has held or increased its value, while increases in capitalization rates have been more prominent among class B and C properties in tertiary markets. According to a recent Torto Wheaton Research report, overall cap rates have moved up between 75 to 175 basis points during the past six months. Despite lenders and investors being skittish about the marketplace, commercial real estate fundamentals remain stable across most market and property types.



Over the past month U.S. Treasuries, which historically account for over two-thirds of the coupon rate for real estate loans, have experienced significant movement in step with reports on soaring oil prices, jobless claims, and inflation worries. The 10-year Treasury has risen to over 4%, but remains attractive when compared to its 10-year average of 4.86%. At the same time, commercial real estate lenders have found some solace in their ability to price risk and have generally held or decreased their spreads. Another positive sign in the debt markets is that the market for commercial mortgage-backed securities, which has been lifeless for the past eight months, is showing signs of improvement. While current CMBS spreads are still outside those of agency and insurance companies, the gap has narrowed considerably.



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. As a Delegated Underwriting and Servicing (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 limited 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. Freddie Mac’s Early Rate Lock feature enables 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.

Through the first five months of 2008, Grandbridge’s Fannie Mae and Freddie Mac platforms have closed 74 agency loans totaling more than \$845 million and has an additional \$746 million in agency loans committed or under application. Freddie Mac and Fannie Mae provide borrowers with the most competitive lending rates available for multifamily transactions today.

Trading in the CMBS market has given insurance lenders some confidence in their ability to price risk accurately. Insurance company lenders have decreased their spreads over the past month although their lending parameters continue to be much more conservative than in past years. Insurance lenders are scrutinizing sponsors’ experience and often require 35% equity before they are willing to lend. Insurance company lenders are also using exit stress tests to ensure that the loans they write today can be refinanced at maturity; a fear brought about from CMBS lenders writing full-term, interest-only loans in a low interest rate environment.

Grandbridge is experiencing a high level of activity with our strong correspondent lenders. In fact, Grandbridge has closed 105 loans totaling more than \$500 million with 29 different insurance companies in 2008.

Local and regional banks continue to originate commercial real estate loans, increasing their market share in this area. These lenders can be very competitive for shorter-term loans of three, five or seven years but usually cannot offer nonrecourse debt. Recently, local and regional banks, which had not been as exposed to global debt issues as commercial and investment banks, are beginning to experience increased scrutiny from Federal regulators. FDIC officers are reviewing the asset quality of bank holdings and are requiring banks to raise capital in order to boost reserves for construction and condominium loans; this will have the effect of limiting the funds available to write new commercial real estate loans.

As a result of the most diverse capital source platform in the industry, Grandbridge has closed transactions with 55 different lenders in 2008 and is able to leverage all of the available debt sources to find the best execution for each borrower's specific needs in today's volatile market.

The market for commercial mortgage-backed securities has improved considerably over the past three weeks. The greatest rally has been in the "AAA" rated bonds, which account for approximately 85% of the bonds in a securitization. Investors have been eager to buy higher rated bonds, but bonds rated "BBB" and below face much tougher scrutiny.

Spreads continue to widen while B-piece buyers show their clout, kicking out poor quality loans. CMBS lenders are not yet originating new loans for securitization, but they have sold many of the commercial loans that have been sitting on their balance sheets for the past nine to 12 months. Industry experts opine that CMBS programs are unlikely to begin originating new loans until they can unwind all their existing positions. "AAA" bonds peaked at around 315 bps over swaps in March, but are now trading around 135 bps.

According to *Commercial Mortgage Alert*, conduit lenders will start writing loans once these bonds spreads are around 100 bps. Optimistic lenders believe that they will begin writing loans for securitization as early as this fall. During 2007, the CMBS market contributed \$250 billion to the commercial debt market compared to only \$11 billion during the first 5 months of 2008.

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 in recent years, rates remain historically 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® (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). During the first five months of 2008 Grandbridge closed 210 loans totaling over \$1.87 billion. Grandbridge's servicing portfolio totals \$21.6 billion with 4,724 loans.

