

Grandbridge Real Estate Capital Capital Markets Update | 12.09

Despite the economic challenges continuing into last quarter of 2009, there are some encouraging signs in the financial system and within the commercial real estate market today. GDP growth turned positive during the third quarter, and the Federal Reserve raised its estimate for economic growth next year. The Fed's projections call for GDP growth between 2.5 percent and 3.5 percent in 2010. Also, the national unemployment rate improved to 10.0 percent in November from 10.2 percent the previous month. Even with these developments, Chairman Bernanke recently tempered expectations for a swift recovery, "Despite the general improvement in financial conditions, credit remains tight for many borrowers," he said, and the job market "remains weak." He continued, "The economy confronts some formidable headwinds that seem likely to keep the pace of expansion moderate." Commercial real estate fundamentals lag the economy and other factors remain as impediments. Reis, Inc., reported that third quarter 2009 sales activity fell 90 percent from its peak in the second quarter of 2007, and according to Moody's/REAL Commercial Property Indices, commercial real estate prices have dropped 41 percent since October 2007. While the commercial real estate market is in the midst of a correction, transactions are taking place and capital remains available at historically attractive rates.

The acute challenge that borrowers face today is that lenders are writing lower leverage loans compared to earlier this decade and forcing borrowers to de-lever commercial real estate; leverage will likely remain constrained until the acquisition market returns and price discovery is realized. The result is a growing importance of equity for acquisitions and refinances. While this is a challenge, Grandbridge Real Estate Capital has access to multiple forms and sources of equity and debt and is executing transactions in both areas today. Debt borrowing rates have improved over the last several months and lower leveraged transactions can attain long-term fixed rates near 6 percent; many multifamily transactions are locking rates close to 5.5 percent.

The most significant news in the commercial real estate debt market is the announcement of the first commercial mortgage-backed securities (CMBS) transaction in the U.S. since mid-2008. The Developers Diversified Realty (DDR) transaction was the securitization of a \$400 million loan made by Goldman Sachs Group and backed by 28 shopping centers owned by DDR. It was expected that most bond buyers would utilize the Fed's Term Asset-Backed Securities Loan Facility (TALF) to provide low interest loans to purchase the securities. Surprisingly, TALF was used to acquire only 22 percent of the eligible bonds, meaning the remaining securities were purchased with cash from private market buyers, according to *Commercial Real Estate Alert*. Although the transaction was unique in that there was only a single borrower and terms were much more conservative than CMBS loans executed in years past, the success fueled hopes that CMBS can again become a viable capital source for commercial real estate and that investors are willing to purchase well-underwritten securities.

Freddie Mac, Fannie Mae and HUD FHA continue to provide liquidity to the multifamily debt market. Recent news articles have focused on the uncertainty of the government-sponsored platforms, noting the massive losses from single family loans and deterioration of their multifamily portfolios. However, according to the Federal Housing Finance Agency, the firms' loans or guarantees on apartments total \$300 billion, only a fraction of the \$5 trillion of single-family loans that Fannie Mae and Freddie Mac hold or guarantee. The fact is that today the Agencies' appetites for multifamily lending remain robust. Responsible for 84 percent of all multifamily lending last year, they continue to provide liquidity to the market over the short term. As the lender

for Fannie Mae and FHA loans and a Freddie Mac Program Plus[®] seller/servicer in the vast majority of markets, Grandbridge has the ability to find the best executions to meet borrowers' objectives. Grandbridge also boasts specialists in multifamily financing focusing on affordable and seniors housing. These groups have the knowledge and resources to understand and structure the most complex transactions.

The Federal Housing Administration (FHA) has greatly increased its relevancy in the multifamily debt marketplace. In recent months requests for FHA financing for both multifamily construction and permanent debt have exploded. Historically, FHA loans were used as an affordable housing lending source, but now HUD financing is available for both market-rate properties and properties with income restrictions. The most appealing feature of FHA loans is the availability of higher leverage — FHA will lend up to 90 percent of transaction costs on many multifamily deals. Grandbridge is a LEAN[®] approved healthcare lender, providing the most efficient execution for skilled and assisted living healthcare facilities, and a Multifamily Accelerated Processing (MAP[®]) approved FHA-insured lender through Ginnie Mae. These accreditations ensure borrowers the fastest processing of HUD-insured loans available. Contact your Grandbridge professional for more information on FHA loans.

Freddie Mac remains active and pricing is very competitive through its Capital Markets Execution (CME). With CME, multifamily loans are pooled and securitized allowing the Agency to maintain high production levels while managing the size of its balance sheet. Freddie Mac also has a Capped ARM program for borrowers who wish to take advantage of lower short-term rates and prefer the prepayment flexibility. The Freddie Mac Capped ARM allows for a floating rate for the full term with an established maximum interest rate. The cost of purchasing the cap is financed by Freddie Mac as part of the rate. Today, Freddie Mac loans can attain leverage up to 75 to 80 percent and rates are in the mid 5 percent range.

Grandbridge ranked seventh among Fannie Mae's 2008 originators of Delegated Underwriting and Servicing (DUS) multifamily debt financing in the country and has continued to build on that success with solid production in 2009. As a DUS lender in Fannie Mae transactions, Grandbridge internally underwrites each deal and will share risk with investors until loan maturity.

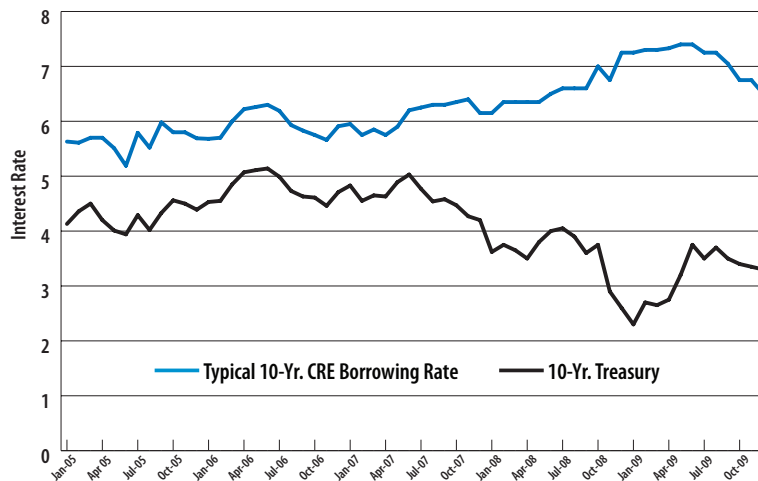
The parent company of Grandbridge is BB&T Corporation (BB&T) — the 10th largest financial institution in the U.S. Based in Winston-Salem, North Carolina, BB&T spent 2009 growing its market share and expanding its footprint through the acquisition of the banking operations of Colonial Bank in August. At the end of the third quarter 2009, BB&T reported net income of \$152 million and a Tier 1 risk-based capital ratio of 11.3 percent. To be classified as Well-Capitalized, a firm must possess a Tier 1 capital ratio of 6 percent or more.

With BB&T's ownership and support, Grandbridge boasts an active proprietary lending platform, BB&T Real Estate Funding (BBTREF). BBTREF is a bridge lender targeting value-add and stabilized assets with the need for short-term debt at competitive rates. During 2009, BBTREF funded loans totaling more than \$100 million, including a recent closing of a \$45 million loan backed by a portfolio of multi-tenant office buildings in various markets. BBTREF has the flexibility to structure loans to fulfill borrower needs during this challenging cycle. BBTREF is unique in the marketplace in that it is both lending and targeting a middle market loan size of \$5 million to \$50 million. BBTREF is only accessible through Grandbridge Real Estate Capital finance professionals.

Insurance companies and portfolio lenders continue to provide loans with increasingly competitive rates to stabilized assets. Helped by historically low Treasury rates and falling corporate bond yields, some insurance companies have recently quoted low leverage transactions below 6 percent and overall borrowing rates have decreased, as illustrated in the chart on the next page. Investment managers within these institutions see the market for commercial

real estate debt as an opportunity to make long-term, well-underwritten loans to quality borrowers. Credit officers across all lending sources continue to spotlight borrowers' balance sheets and schedules of real estate owned to make certain that maturities in coming years are appropriately addressed while reviewing the performance of other real estate assets to ensure that borrowers have the financial strength to endure this real estate cycle. Leverage remains a constraint, as very few insurance companies are willing to lend more than 70 percent of value. Grandbridge utilizes its network of more than 55 insurance company and portfolio lenders to find the most competitive execution available for a given transaction.

10-Year Treasury Yield & CRE Borrowing Rates Since 2005



Through the first 11 months of 2009, Grandbridge has executed transactions totaling more than \$2.1 billion. Transactions have ranged from \$337,000 to more than \$150,000,000. Below are examples of recent closings:

Loan Amount	Location	Product Type	Finance	Lender
\$20,000,000	Tampa, FL	Seniors Housing	Construction	BB&T Bank
\$19,837,000	Atlanta, GA	Multifamily	Refinance	Agency
\$9,615,000	Houston, TX	Seniors Housing	Development	Private Equity
\$5,000,000	Chanhassen, MN	Industrial	Refinance	Insurance Company
\$45,000,000	Various Locations	Office Portfolio	Refinance	BB&T Real Estate Funding
\$2,900,000	Austell, GA	Multifamily	Acquisition	Agency

Grandbridge manages a servicing portfolio with assets totaling in excess of \$24 billion, making Grandbridge the third largest mortgage banking firm in the U.S. Grandbridge Real Estate Capital has 28 loan origination and production offices, providing services nationwide. Grandbridge production also works closely with BB&T bankers, and 20 of its offices are located within the BB&T footprint. 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 Targeted Affordable Housing lender, as well as an active participant in multifamily products insured by the Federal Housing Administration (FHA).