

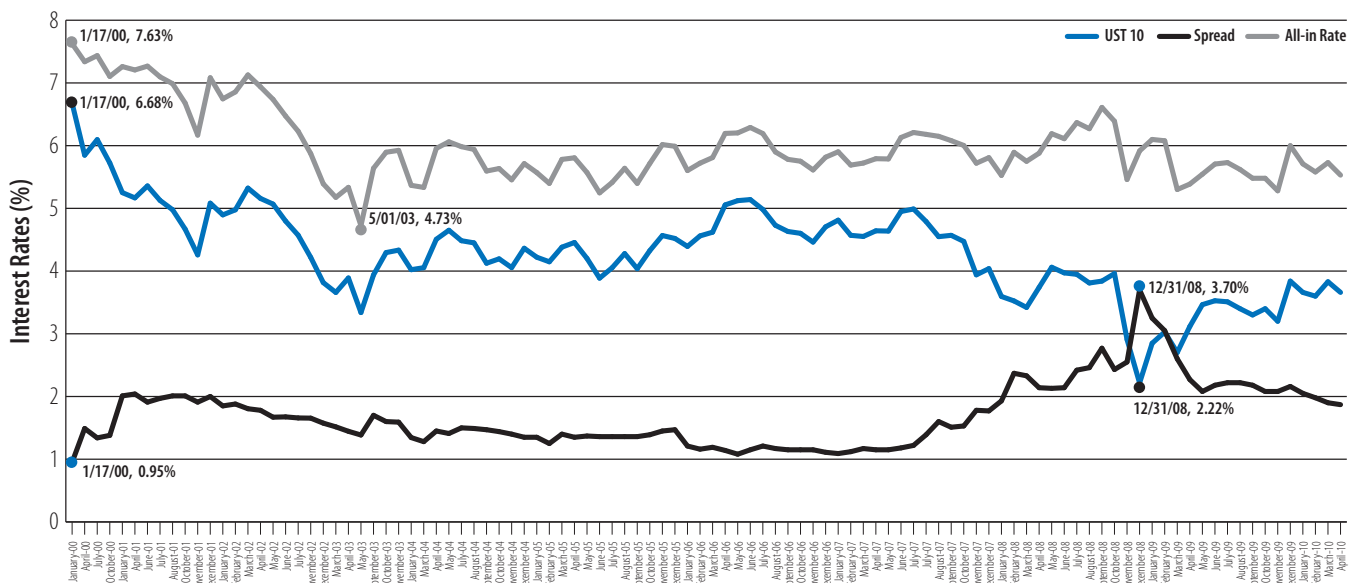
Grandbridge Real Estate Capital Capital Markets Update | 6.2010

Commercial real estate investors' appetite for risk is adjusting in the landscape of economic recovery at home while the sovereign debt crisis across Europe and political tension in the Middle East threaten stability. In recent weeks, investors have again sought the safety of U.S. Treasury securities and other presumed safe assets. The impact on commercial borrowing rates has been that overall rates have declined with Treasury yields, driving all-in rates below 5.5 percent for multifamily transactions and near 6 percent for other commercial property types. The relative value of commercial real estate has investors more interested in the asset class again versus developing nations' debt and corporate bonds. Leverage continues to be the biggest impediment to borrowers signing loan applications, but lenders are beginning to increase loan-to-value underwriting parameters in order to differentiate their platforms and win business.

Grandbridge Real Estate Capital continues to actively originate and fund multifamily transactions through its Agency platform. With access to all three Agency lenders; Freddie Mac, FHA and Fannie Mae, Grandbridge provides liquidity to the market at historically attractive rates and terms. In fact, Grandbridge is proud to announce that for the second year in a row it was the seventh largest Fannie Mae DUS® (Delegated Underwriting and Servicing) lender by volume. Grandbridge has an experienced in-house underwriting team with a proven track record of success and continues to actively fund multifamily loans in 2010.

In light of improving apartment vacancy rates, Fannie Mae is expected to relax some underwriting parameters and stress tests so that loan amounts will not be excessively constrained by the increased vacancy and concessions that dominated most apartment markets over the past two years. Apartments that had shown increased vacancy trends had been underwritten as if the trend was to continue at a steady rate. Going forward, Fannie Mae will allow DUS® lenders more autonomy in underwriting vacancy trends which should have a positive impact on loan sizes. Similarly, Delegated Underwriters have also been given more authority to grant longer terms of interest-only periods for certain classes of loans. Fannie Mae rates remain near historical lows, as shown in the graph below:

Historical Fannie Mae Rates



FHFA, Freddie Mac's regulator, has approved Freddie Mac's new mezzanine lending program. Partnering with several multifamily oriented mezzanine lenders, Freddie Mac hopes to formally roll this program out mid-summer. Initial indications are that the new program will provide for a maximum LTV of 75 percent on the first mortgage loan, with an additional 15 percent available through a mezzanine piece. The minimum combined DSCR could potentially be as low as 1.05x. More details will be announced in the near future, and Grandbridge will be sharing those with its clients as soon as the program is published.

Freddie Mac, through its Capital Markets Execution (CME), continues to build on its success of securitizing conventional market rate multifamily deals by announcing its inclusion of age-restricted properties, multifamily properties with student concentrations, student housing, cooperative housing and Section 8 HAP properties. A Freddie Mac CME loan offers borrowers better rates of up to 45 basis points compared to a Freddie Mac balance sheet loan. Additionally, CME borrowers have the ability to place a Freddie Mac supplemental mortgage on the property after 12 months of seasoning the first Freddie Mac loan. The amount of the supplemental loan is subject to the lesser of the first mortgage LTV and DCR requirements, or the then-current Freddie Mac Supplemental Mortgage Requirement. After starting the CME program in 2008 as a way for Freddie Mac to manage the size of its balance sheet, it has evolved and proven to be a very competitive and efficient way for multifamily borrowers to access capital. Grandbridge is a Freddie Mac Program Plus® Seller/Servicer in the vast majority of its markets.

FHA is moving forward with their proposed changes to the 221(d)(4) program (New Construction and Substantial Rehabilitation program) as well as to the 223(f) program (Refinance and Acquisition program). The new guidance is expected to be provided to MAP Lenders during the third week of June and will include changes to loan-to-cost and debt service coverages on the 221(d)(4) program as well as the need for additional upfront reserve requirements. Market rate properties will now be limited to 83.5 percent loan-to-replacement cost and a 1.20x DSC, down from the long-time standard of 90 percent loan-to-replacement cost and a 1.11x DSC. Additional initial operating reserves and an increase to the working capital requirements (4 percent up from 2 percent) will create additional cash requirements at closing for borrowers. The 223(f) program is seeing a slight increase in the DSC to 1.20x up from 1.1765x and is not expected to impact overall loan proceeds considerably; however, the focus on immediate/critical repairs combined with initial deposits to replacement reserves continue to be primary issues in the 223(f) program for lenders and borrowers. Borrowers that work with Grandbridge are being advised to get the Physical Condition Needs Assessments completed early in the process to determine the potential economic impact of these two categories in the overall loan sizing and equity requirements when using the 223(f) program. Please consult with your Grandbridge banker for more information.

Insurance companies have returned to the market and have been more aggressive in terms of leverage and rate in recent months. Investment managers within many insurance companies have been increasing allocations for new commercial mortgage origination due to their superior returns and risk profile compared with other investment classes. Grandbridge has closed a number of transactions involving large insurance companies with loan-to-value ratios of 75 percent, whereas insurance companies had been limiting leverage to 65 percent during the downturn in the market. Investors' "flight to quality" has also helped lenders' all-in interest rates; many insurance companies are installing floor rates of 5.75 percent for 10-year term loans. Many, but not all, insurance companies have stretched amortization schedules to 25 years on 10-year term loans, whereas many lenders had been limited to 20-year amortization schedules during the previous 24 months. Insurance companies quoting lower loan-to-value transactions are quoting rates as low as 5.25 percent for a 10-year fixed rate deal. Asset quality remains very important and lenders have been structuring reserves for tenant rollover during the term of the loan. Grandbridge represents more than 55 different insurance company lenders with exclusive representation in many markets. Grandbridge is able to make a market for each real estate transaction to ensure each borrower's objectives are met.

CMBS lenders have been touring markets and looking for opportunities to fund. A commercial loan securitization earlier this year was oversubscribed and several CMBS lenders have funded and pooled over \$700 million worth of commercial mortgages that will be securitized later this summer. The results are expected to further revive the industry and provoke more CMBS loan origination. The loans that have been funded have typically been stabilized retail and office properties with loan sizes of \$12 million or greater. Proceeds for CMBS loans are currently limited to the lesser of 10 percent debt yield or 70 percent of property value. Today, rates are near 6.25 percent for 10-year fixed rate loans and as low as 5.50 percent for 5-year terms. CMBS loans use 30-year amortization schedules and are nonrecourse. CMBS borrowers will need a cash management agreement whereby tenant rents will flow to a clearing house to pay debt service and property and insurance escrows prior to flowing to the borrower. It is an encouraging sign that CMBS is again providing liquidity to the commercial real estate industry. Expect more players to enter the CMBS field and lenders to become more competitive as investors accept the new CMBS underwriting parameters and securitizations price favorably.

BB&T Real Estate Funding, the proprietary bridge lending program of Grandbridge, has recently announced program enhancements:

- Maximum multifamily leverage increased 5 percent from 70 percent to 75 percent loan-to-cost.
- The minimum spreads have been reduced 50 bps to 350 from 400 and minimum floor rates decreased 75 bps to as low as 5.50 percent. Note that floors below 6 percent are generally reserved for multifamily or low leverage commercial loans.

BB&T Real Estate Funding provides nonrecourse bridge loans to developers seeking to rehabilitate properties or close quickly in order to take advantage of opportunities in the marketplace. BB&T Real Estate Funding continues to provide flexibility to its program to be as competitive as possible in the evolving marketplace. Note that the above loan guidelines are only a guide; the lender will adapt structure and/or pricing to win bridge lending opportunities.

Grandbridge manages a loan servicing portfolio with assets totaling in excess of \$24.5 billion, making Grandbridge the third largest mortgage banking firm in the country. Grandbridge has 26 loan origination and production offices, providing services nationwide. The production team 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. The 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).

Grandbridge is pleased to announce these recently funded transactions:

<p>\$5,800,000</p> <p>Ocala Corners 86,772 Sq.Ft. Retail Tallahassee, FL Members (CUNA) Refinance</p>	<p>\$19,472,377</p> <p>Horizon Bay Hyde Park 136-Unit Seniors Housing Tampa, FL BB&T Construction</p>	<p>\$6,100,000</p> <p>Sienna Place Apts. 312-Unit Multifamily Colorado Springs, CO Mutual of Omaha Refinance</p>	<p>\$7,475,000</p> <p>Hampton Plaza 213,162 Sq.Ft. Retail Center Clarksville, TN BB&TREF Acquisition</p>
<p>\$13,827,000</p> <p>Oak Hollow Apartments 277-Unit Multifamily Southaven, MS FHA Refinance</p>	<p>\$7,600,000</p> <p>Shorewood Village Shopping Center 66,490 Sq.Ft. Retail Madison, WI Nationwide Refinance</p>	<p>\$12,750,000</p> <p>Dominion Arms Apartments 188-Unit Multifamily Arlington, VA Freddie Mac Refinance</p>	<p>\$14,000,000</p> <p>Drake Apartments 396-Unit Multifamily Tacoma, WA Fannie Mae Refinance</p>
<p>\$11,700,000</p> <p>Carrier Distribution Center 184,317 Sq.Ft. Industrial Kansas City Thrivent Acquisition</p>	<p>\$4,650,000</p> <p>Waddell & Reed Office 64,744 Sq.Ft. Office Kansas City American Equity Refinance</p>	<p>\$3,450,000</p> <p>Creekside Center 97,555 Sq.Ft. Retail Goose Creek, SC Sun Life Refinance</p>	<p>\$19,361,300</p> <p>Alta Royal Oaks Apartments 282-Unit Multifamily Houston, TX FHA Refinance</p>