

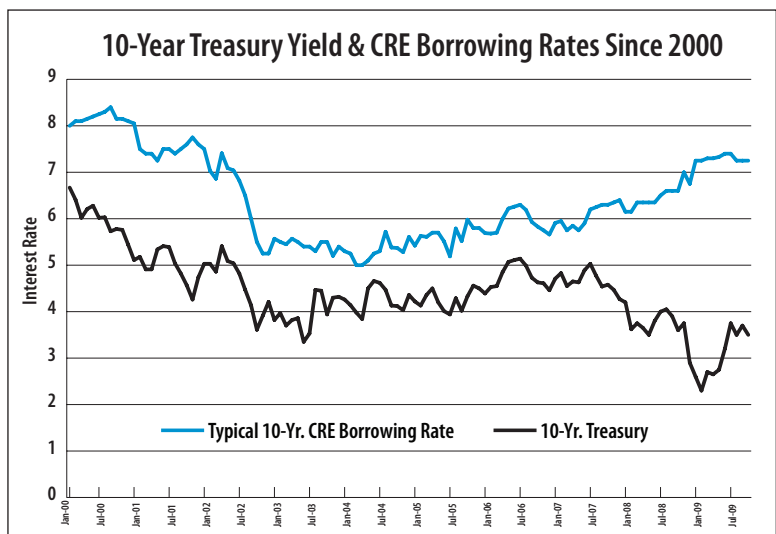
Grandbridge Real Estate Capital Capital Markets Update | 9.29.09

The worldwide recession and credit crunch, which officially began in December 2007, continues to challenge commercial real estate owners. Although the Federal Reserve and U.S. Treasury recently issued statements commenting that financial-market conditions have “improved considerably in recent months,” the markets for Asset Backed Securities (ABS) and Commercial Mortgage-Backed Securities (CMBS) “are still impaired and seem likely to remain so for some time.” Efforts by the Federal Government are beginning to gain popularity among investors, but the overall impact will take longer to play out. While liquidity and credit problems hinder one part of the market, space fundamentals have deteriorated due to layoffs and economic uncertainty. Property owners also face a market whereby their real estate assets, in many cases, have lost value due to rising capitalization rates and increasing vacancy. Banks and other commercial real estate lenders have also been evaluating their existing loans on a case by case basis. Lenders with funds today have many choices on how to deploy capital, meaning they are selective with opportunities and request greater equity contributions by owners and charge higher rates for their perceived risk. After years of credit easing and opportunistic underwriting, owners must now de-lever their real estate assets.

Despite these challenges, many lenders remain active. In 2009, Grandbridge Real Estate Capital has closed over 200 loans totaling more than \$1.55 billion; see examples at the end of this piece. Grandbridge represents more than 100 capital sources and continues to close loans at historically attractive rates. Multifamily rates today start at 5.5 percent for an 80 percent loan-to-value, and full-leverage commercial property interest rates start close to 7 percent; see graph below.

Multifamily property owners have not been immune from challenges as apartment vacancy rates were at record highs in the second quarter, according to the U.S. Census Bureau. According to M/PF Research, rents also declined by 3.4 percent during the last quarter, the biggest decline on record. Sales of multifamily properties during the second quarter were up 41 percent, but still near a record low and down 71.9 percent from a year ago. The multifamily market has been slower to feel the effects of job losses and has been buoyed by the availability of credit through Government Sponsored Agencies.

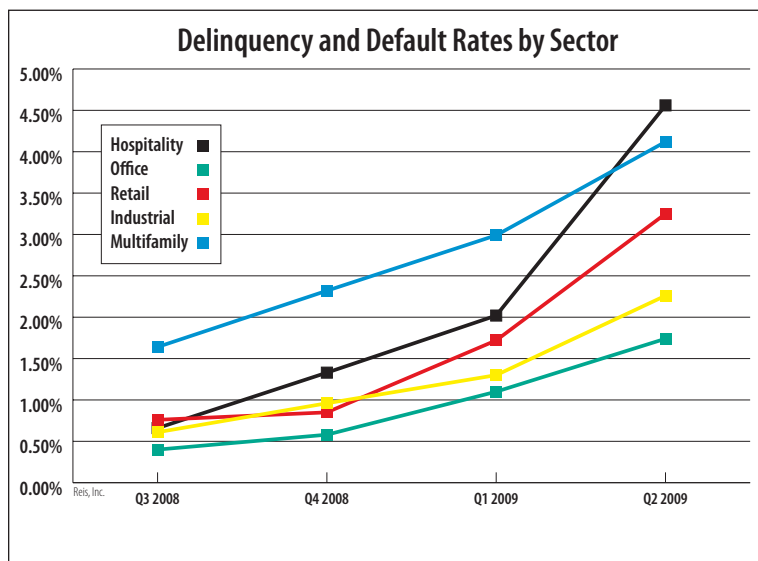
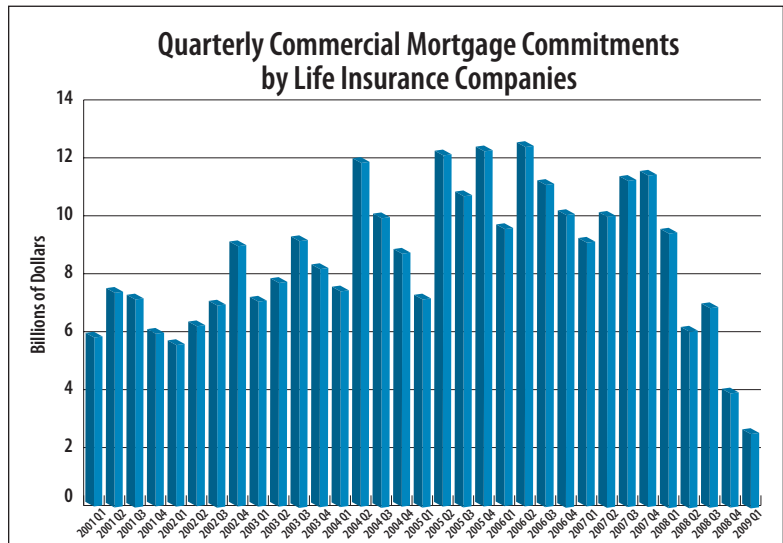
The multifamily debt market continues to be dominated by Fannie Mae, Freddie Mac and FHA/HUD. These lenders remain extremely aggressive, offering leverage up to 85 percent in some cases, and interest rates below 6 percent for many transactions. Grandbridge is unique in that it has in-house underwriting teams and direct access to all three Agencies and the ability to find the best execution to meet borrowers’ objectives. Grandbridge was the #7 Fannie Mae DUS® (Delegated Underwriting and Servicing) lender in the country in 2008 and has continued to build on that success by increasing production by 25 percent despite the 50 percent drop in Fannie Mae’s national production during the first half of 2009. Freddie Mac pricing has remained very competitive with its Capital Markets Execution (CME) through which multifamily loans are pooled and securitized, allowing the Agency to maintain high production levels while managing the size of its balance sheet. The first Freddie Mac sale of CME securities was successfully completed in June and another offering is set for the fourth quarter.



The Federal Housing Administration (FHA) has also greatly increased its relevancy in the multifamily debt marketplace. In recent months requests for FHA financing for both multifamily construction and permanent debt has exploded. FHA recently expanded the number of properties eligible for HUD-insured debt by temporarily allowing loans on market-rate properties which have been completed within the last three years. Historically, FHA loans had been used as an affordable housing lending source, but now HUD financing is available for both market-rate properties and properties with income restrictions. FHA rates today remain extremely attractive. Grandbridge is LEAN[®] approved, providing the most efficient execution for skilled and assisted living health care 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.

After several slow quarters of insurance company production, lenders are slowly becoming more active, albeit remaining conservative in their underwriting. Grandbridge recently surveyed 50 insurance company lenders to gauge their production in 2009 and their appetite for future business. Approximately half of the companies responded that they are currently pursuing business and most expect to have increased allocations in 2010. While lender "watch lists" for troubled loans and defaults have increased, the problems will not be as severe as those in banks and CMBS since insurance companies have typically been more conservative. The general underwriting parameters of insurance company lenders include a maximum loan-to-value of 65 percent using capitalization rates of 8.5 percent or higher for non-multifamily properties. Most insurance companies require a 20- or 25-year amortization schedule. Insurance companies maintain a preference for longer term (10 year) transactions, but remain flexible depending on borrower needs. Lender spreads have decreased over several months and are generally 300 to 500

basis points over Treasury indices with overall rates of 6.75 percent to 8 percent; lower rates are obtainable for loans less than 50 percent of value. Many lenders are requiring full or limited recourse for additional security. Lenders are clearly taking advantage of the lack of liquidity in the market by selectively choosing opportunities consisting of high-quality real estate with experienced sponsors. In this disjointed marketplace a large and diverse insurance company base is more important than ever. The illustration above shows how insurance company lending has decreased over the last year while lenders have evaluated their existing loans and upcoming maturities.



Delinquency rates among CMBS commercial and multifamily loans continue to increase through the recession. The chart to the left displays delinquency rates among different industry sectors over the past four quarters. The national CMBS delinquency rate rose to 2.99 percent in the second quarter, a 119 basis point increase from the first quarter and a 233 basis point year-over-year increase, according to Reis, Inc. Many lenders view this data as justification for demanding greater equity and higher risk premiums.

Despite efforts by the Federal Reserve and the U.S. Treasury to jumpstart the CMBS market, Term Asset-Backed Securities Loan Facility (TALF) and Public-Private Investment Program (PPIP) programs continue to evolve and investors are just beginning to utilize the \$100 billion in nonrecourse loans available to borrowers who buy eligible CMBS and other asset-backed securities. The

TALF program is set up to provide borrowers nonrecourse loans to buy AAA rated and non-watchlist CMBS securities. The original program was for new CMBS issuance, but has been expanded to include legacy CMBS as acceptable collateral. The TALF program recently received requests for \$2.28 billion to finance legacy securities and has helped reduce yields of existing investment-grade bonds. While the program has received interest for legacy loans, there have been no requests for loans on new issue CMBS paper; several new CMBS transactions are expected to come to market during the fourth quarter. Loans through TALF originally had 3-year terms, but this has been expanded to five years. While it is difficult to gauge the current impact that TALF has had on the market, the recent extensions and expansion of the program are positive steps in addressing the imbalance between pending maturities and current lending capacity. PPIP is another Government-sponsored program designed to clear legacy loans and securities off balance sheets of financial institutions. Under the PPIP, the FDIC coordinates the auction of approved loans and guarantees 85 percent of the new loan taken out to purchase the asset. The Treasury Department then funds 50 percent of the required equity leaving the borrower to contribute 7.5 percent of the asset value. Both programs serve to clear financial institutions' balance sheets and free up capital for future commercial real estate loans. The Fed, Treasury and FDIC are dedicated to these efforts and will continue to work with the industry to free capital and restart the CMBS market.

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. 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® lender, a Freddie Mac Program Plus® Seller/Servicer and an active participant in multifamily products insured by the Federal Housing Administration (FHA).

Recent Transactions

\$38,400,000	Chesterfield, MO	694-Unit Multifamily	Acquisition	Agency
\$22,000,000	Cicero, IL	294,053 Sq.Ft. Retail	Acquisition	Insurance Company
\$24,250,000	Atlanta, GA	307,000 Sq.Ft. Office	Refinance	Bank
\$25,480,000	Cary, NC	177-Unit Seniors Housing	Refinance	Agency
\$3,600,000	Cape Canaveral, FL	38,643 Sq.Ft. Office	Refinance	Insurance Company
\$18,640,000	Tampa, FL	420-Unit Multifamily	Acquisition	Agency
\$13,000,000	Bristow, VA	111,635 Sq.Ft. Retail	Refinance	Insurance Company
\$2,850,000	Columbus, OH	.45 Acres Land	Refinance	Bank
\$16,400,000	Prairie Village, KS	169,381 Sq.Ft. Retail	Acquisition	Insurance Company
\$19,165,000	Rohnert Park, CA	300-Site Manufactured Home Community	Refinance	Agency
\$2,150,000	Carmel, IN	36,139 Sq.Ft. Office	Refinance	Insurance Company
\$25,280,000	Mequon, WI	159,015 Sq.Ft. Medical Office	Refinance	Bank
\$13,650,000	Fitchburg, WI	305-Unit Multifamily	Refinance	Agency
\$9,800,000	Baton Rouge, LA	184-Unit Affordable Housing	Acquisition	Agency