



CMBS Market Trends and Outlook

Presentation to CREW CT -- REX



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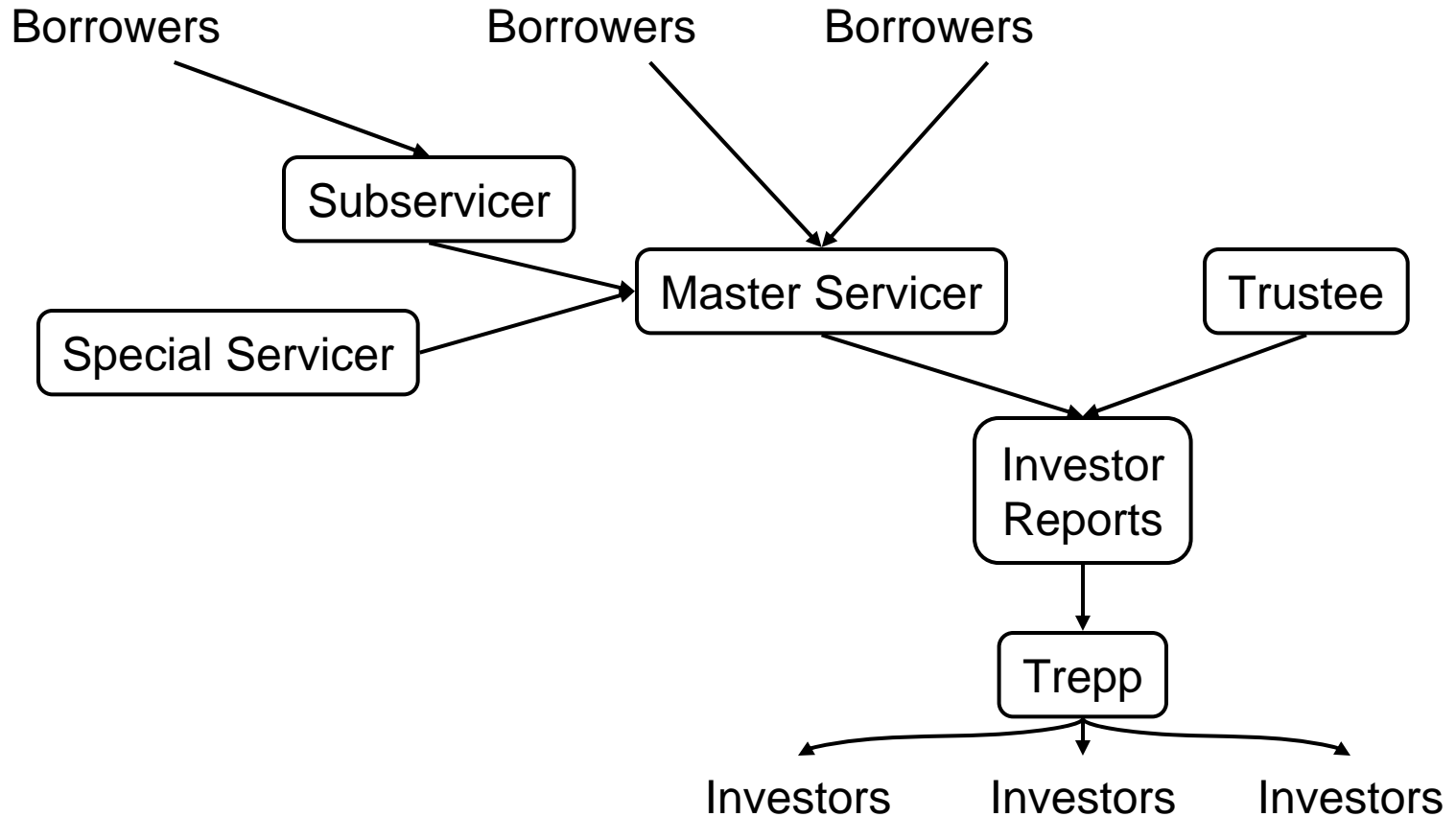
CMBS Background



- **Issuer:** Owns the loans and owes the bonds
- **Master Servicer:** Collects loan payments and manages reporting
- **Special Servicer:** Deals with troubled assets
- **Trustee:** Represents investors and handles cash for the bonds
- **B-Piece Investor:** Owns riskiest CMBS bonds and has consultation rights
- **Senior Investor:** Owns the AAA bonds



Idealized Data Flow





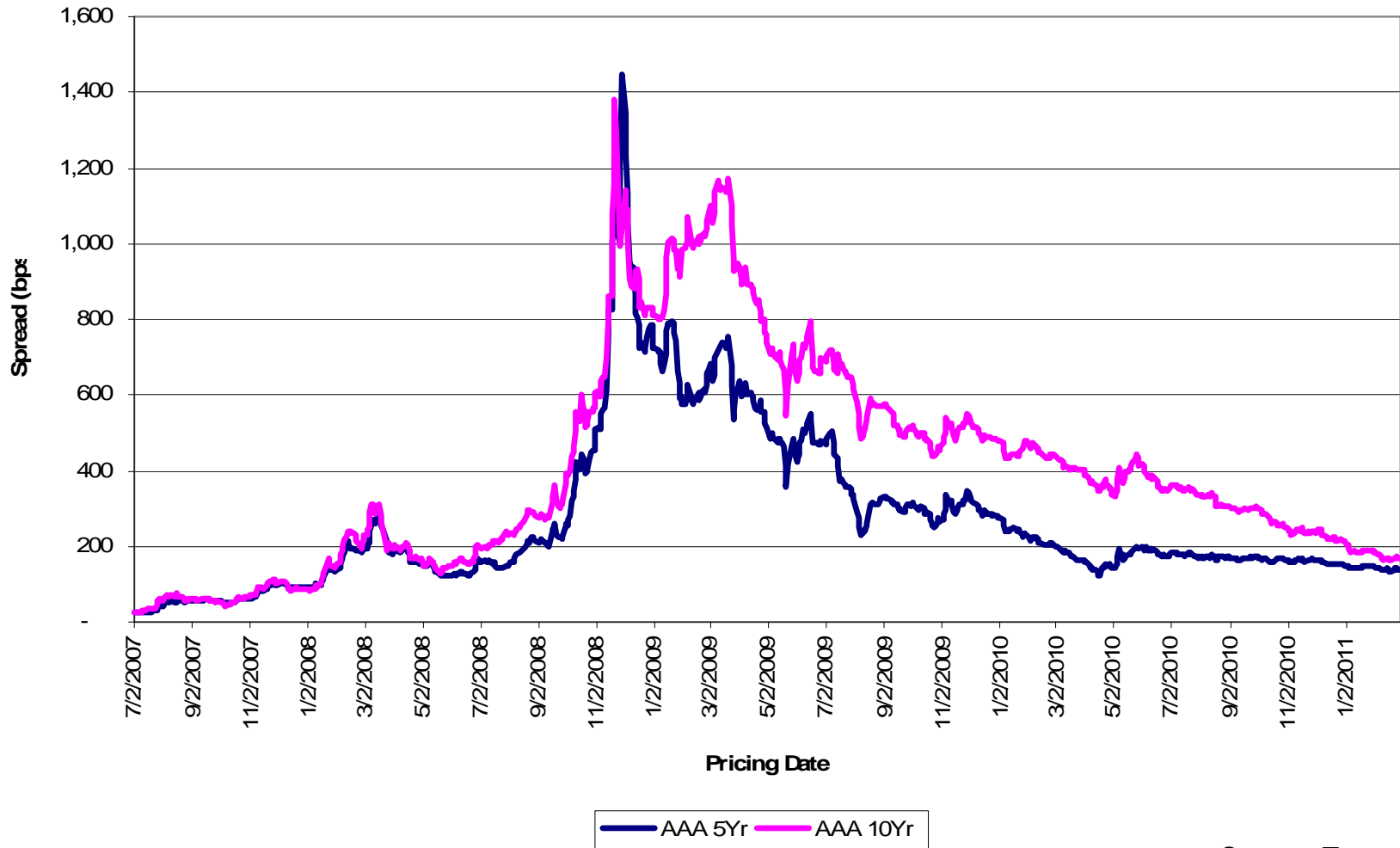
CMBS Market Trends



- CMBS Secondary Market Spreads
- Balance Sheet Lender Spreads
- CMBS Primary Market



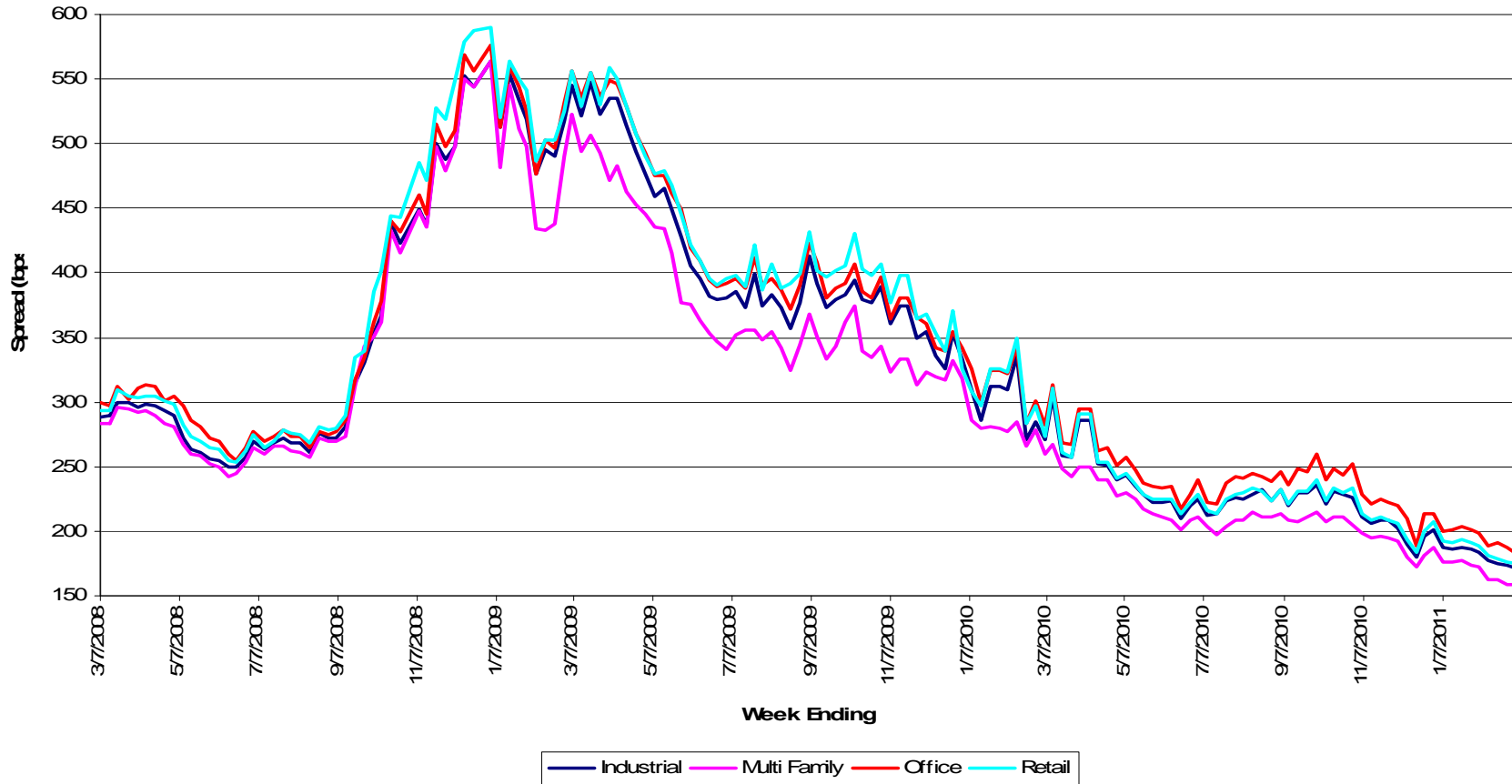
CMBS Cash Spreads Have Stabilized





Rates for New CRE Loans Have Dropped

Trepp Real Estate Portfolio Pricing Index (TREPP- i)^{}*



**Compiled from a survey of institutional lenders. Indicative Spreads for Commercial Real Estate Loans vs. Treasury (50-59% Leverage, Amortizing, 10 year, fixed rate)*



Trepp-i™ Results for 3/11/2011 Show More Tolerance for Leverage

Property Type		LTV Range					
		<50%	50%-59%	60%- 65%	66%-70%	71%-75%	>75%
Multi Family	Amortizing	145	156	171	187	188	
	IO	153					
Office	Amortizing	170	182	195	212		
	IO	178					
Retail	Amortizing	160	171	187	206		
	IO	168					
Industrial/Warehouse	Amortizing	156	168	188	202		
	IO	168					
Hotel / Lodging	Amortizing						
	IO						

Than Trepp-i™ Results for January 2, 2009

Property Type		LTV Range					
		<50%	50%-59%	60%- 65%	66%-70%	71%-75%	>75%
Multi Family	Amortizing	546	564				
	IO						
Office	Amortizing	559	576				
	IO						
Retail	Amortizing						
	IO						
Industrial/Warehouse	Amortizing	546	564				
	IO						



- \$5.7 billion in Conduit
 - (8 deals)
- \$7.0 billion in Single Borrower / Single Asset
 - (8 deals)
- \$6.4 billion in Freddie Mac
 - (6 deals)

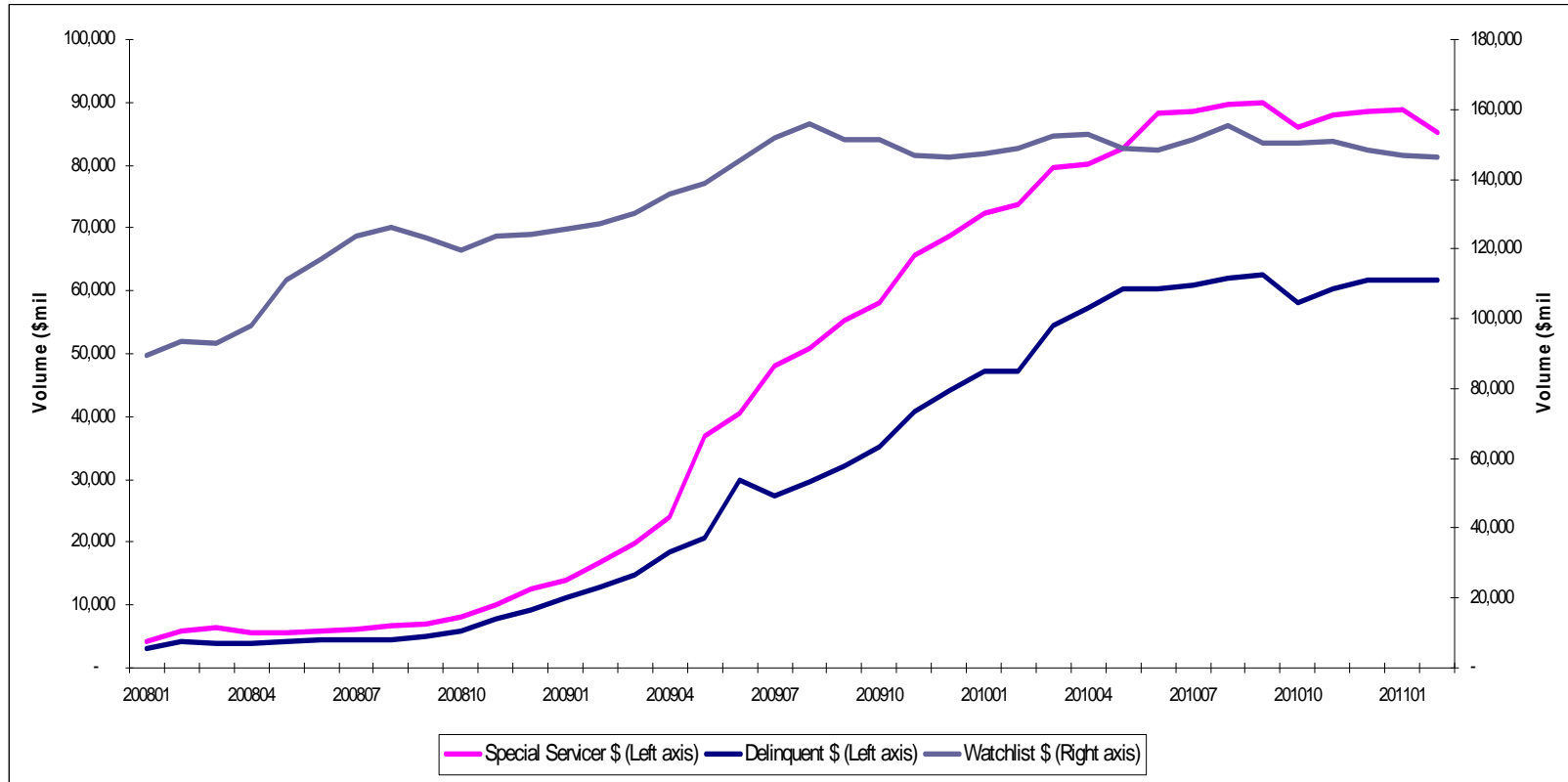


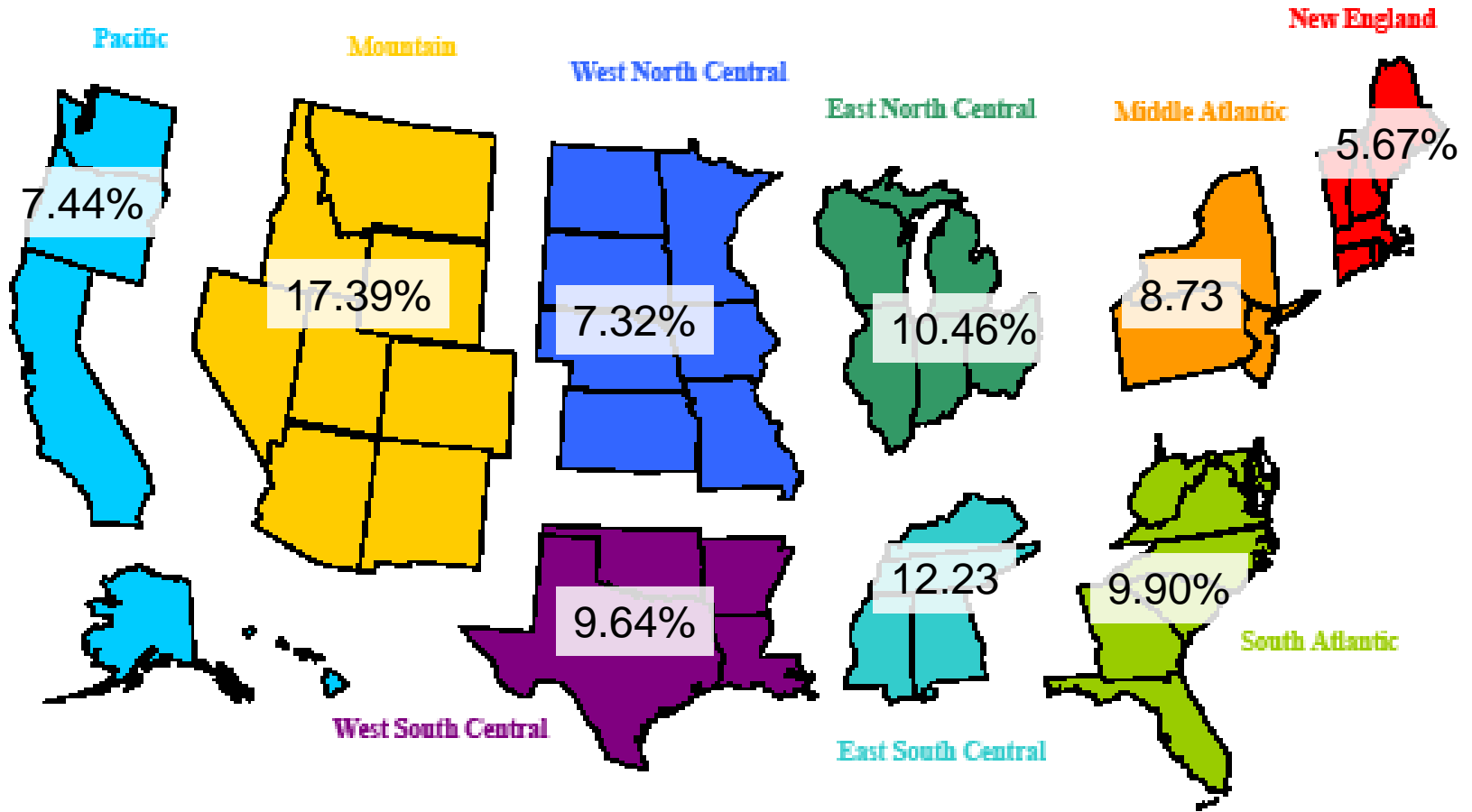
- Back to the Future – Addressing Risk
 - Increased subordination levels
 - Lower Loan to Value
 - Higher Debt Service Coverage
 - More amortization

- The “New” New Thing – Addressing Conflicts
 - Certificate Administrator
 - Operating Advisor
 - Excess Fee Reserves
 - Voting Rights



Loan Performance in Outstanding CMBS





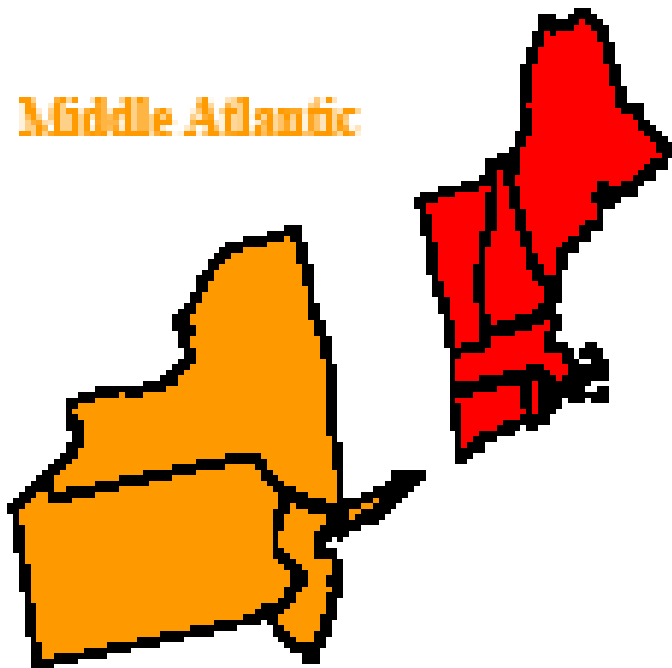


New England

Middle Atlantic

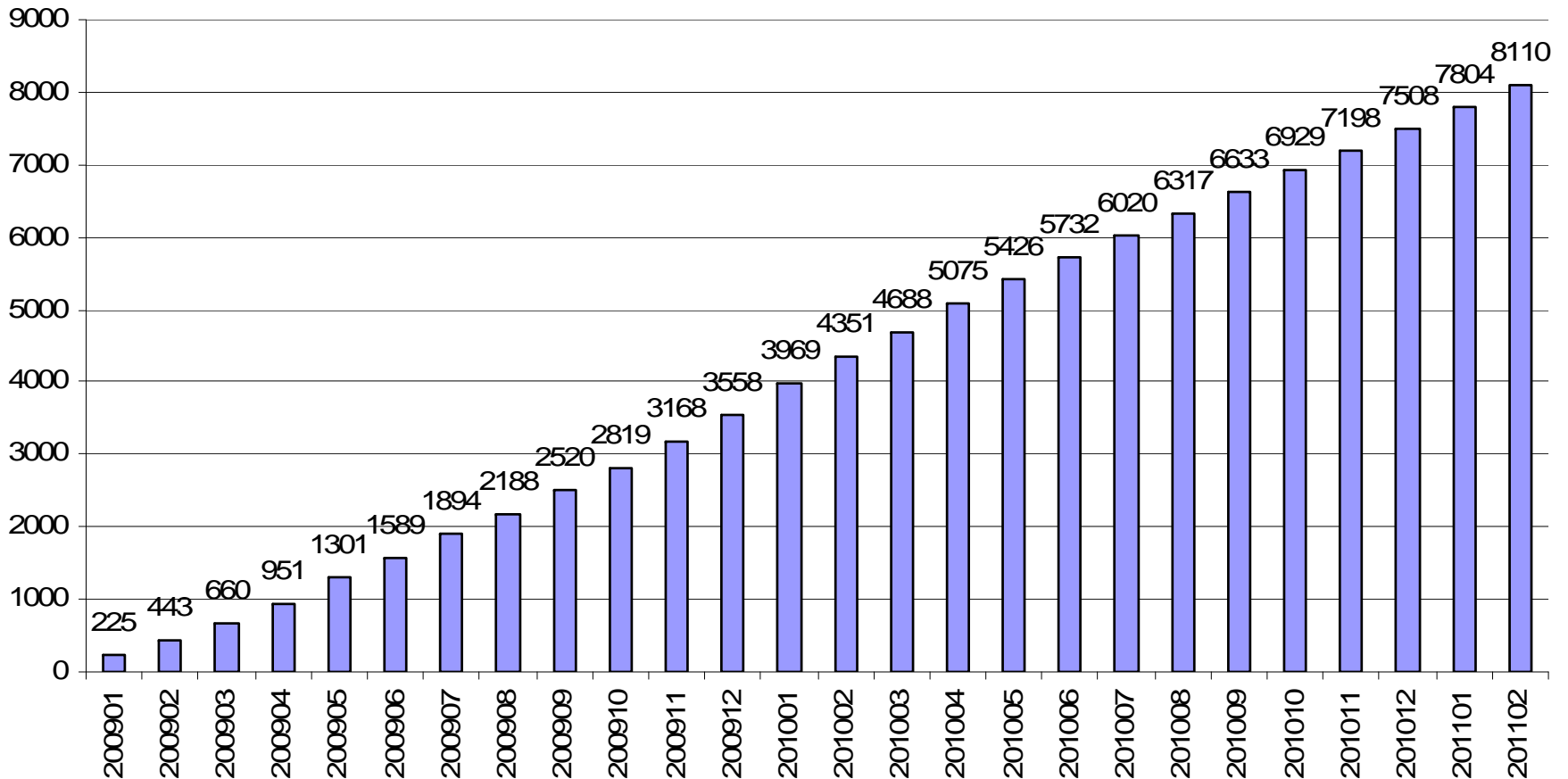
CT	6.87%
MA	4.49%
ME	3.01%
NH	5.66%
RI	10.73%
VT	12.97%

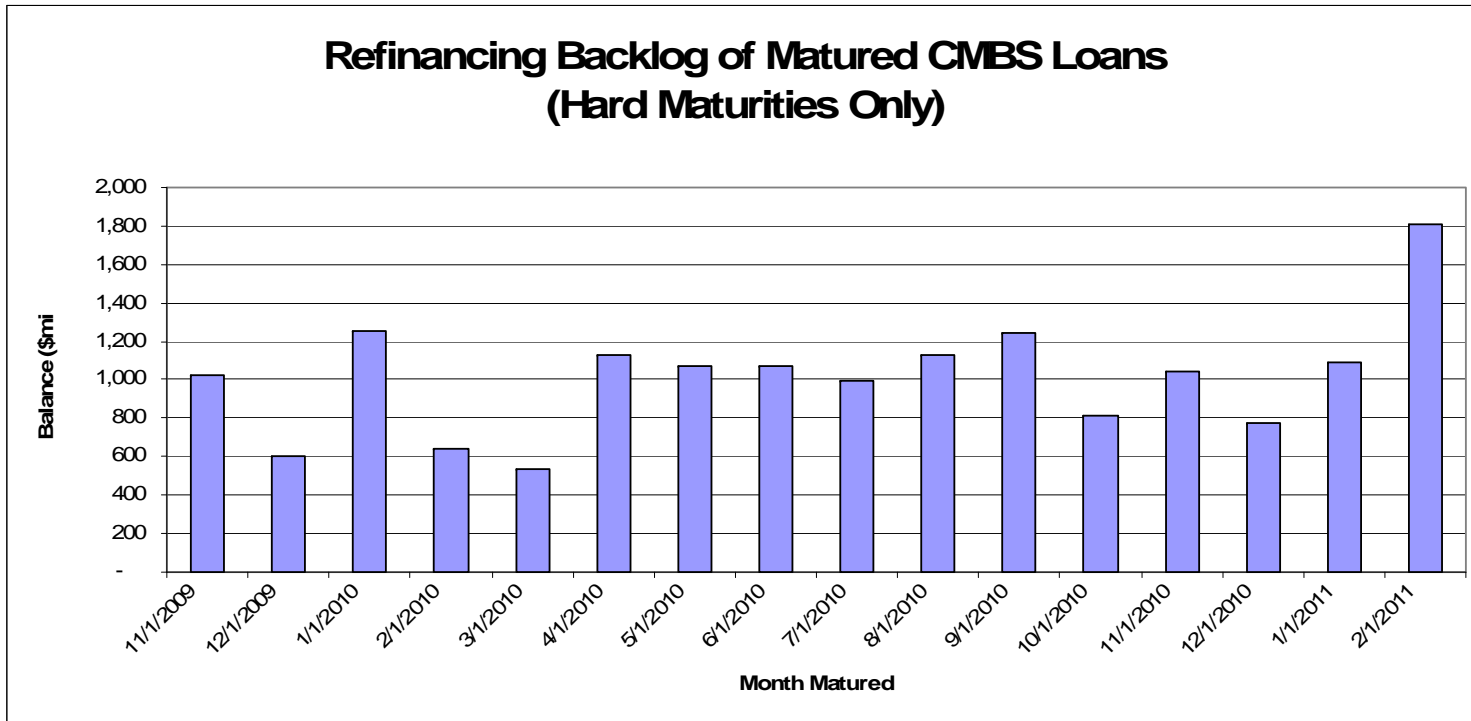
NJ	9.98%
NY	8.29%
PA	9.63%





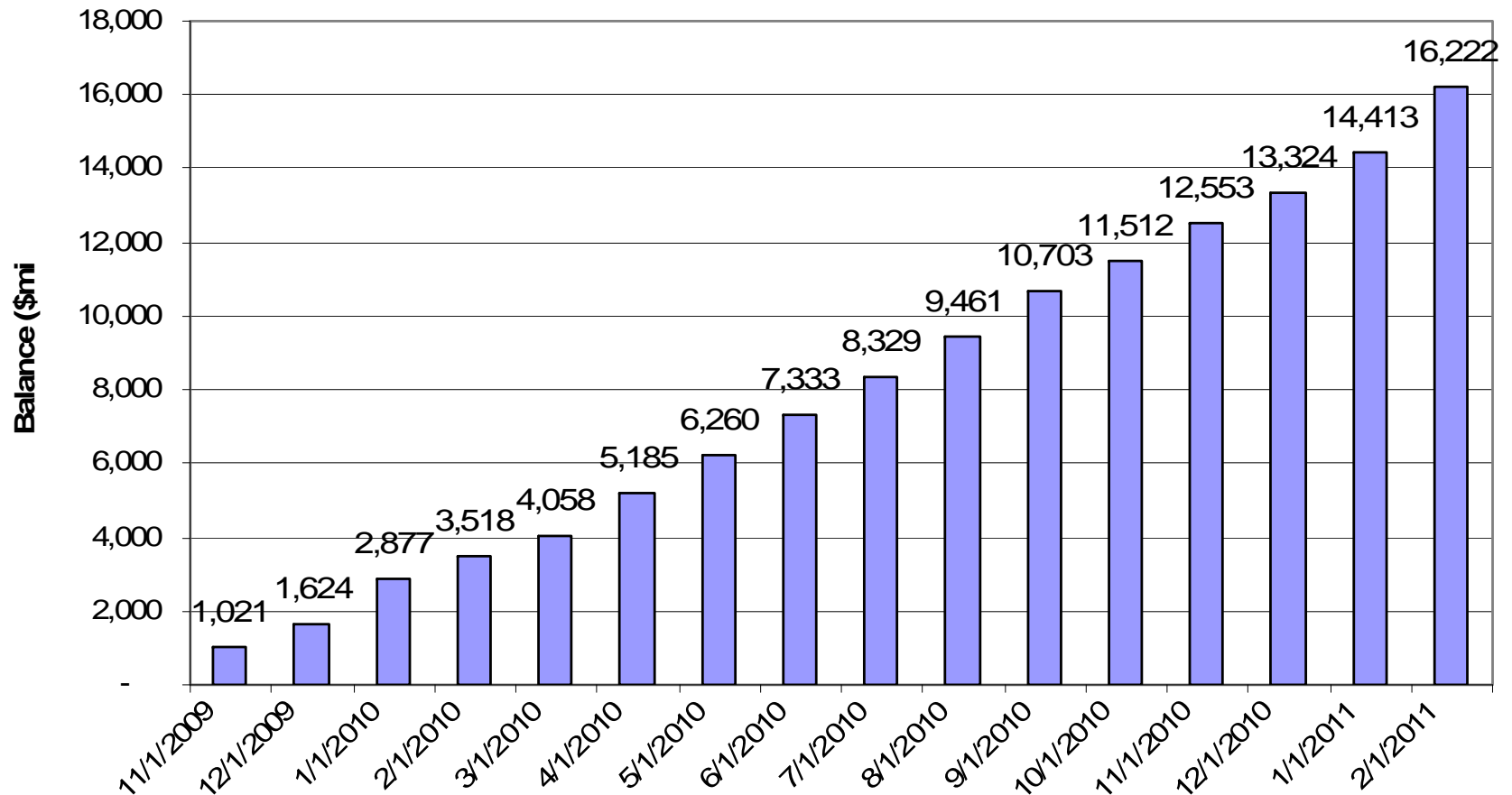
**Cumulative New Defaults Since January 1, 2009
(60+ Days Since Last Payment)**







Cumulative Refinancing Backlog (Hard Maturities Only)





Types of Loan Modification

Loan Modification Type	Loan Balance Modified	% of Total
Maturity Date Extension	7,420,606,926	36.5%
Other/Unknown	3,761,716,023	18.5%
Amortization Change	3,170,685,471	15.6%
Combination	5,080,056,452	25.0%
Temporary Rate Reduction	696,674,226	3.4%
Principal Write-Off	219,423,063	1.1%
	20,349,162,162	100.0%

Modification by Property Type

Property Type	Loan Balance Modified	% of Total
RT	9,092,8976,085	44.7%
Other*	2,819,243,268	13.9%
OF	4,624,241,154	22.7%
MF	2,022,893,596	9.9%
LO	1,414,664,156	7.0%
IN	373,590,608	1.8%
	20,347,508,866	100.0%

Note: \$1.9 billion of "Other" was Mixed Use property type; primarily the result of the Ala Moana loan modification in Feb 2010.



Loss severity is more severe than first glance

Date	Loss Severity – All Loans
10-Jan	35.81
10-Feb	25.73
10-Mar	28.84
10-Apr	40.67
10-May	42.62
10-Jun	36.39
10-Jul	46.16
10-Aug	39.62
10-Sep	29.44
10-Oct	20.63
10-Nov	25.02
10-Dec	45.71
11-Jan	31.39
11-Feb	24.06
Total	33.74

Date	Loss Severity – Stripping Out Losses < 2% of Balance*
10-Jan	56.16
10-Feb	62.55
10-Mar	51.57
10-Apr	58.68
10-May	60.40
10-Jun	59.54
10-Jul	61.49
10-Aug	62.59
10-Sep	71.04
10-Oct	54.04
10-Nov	53.20
10-Dec	59.25
11-Jan	45.61
11-Feb	47.70
Total	56.57

**Notes relating to the adjusted loss severity*

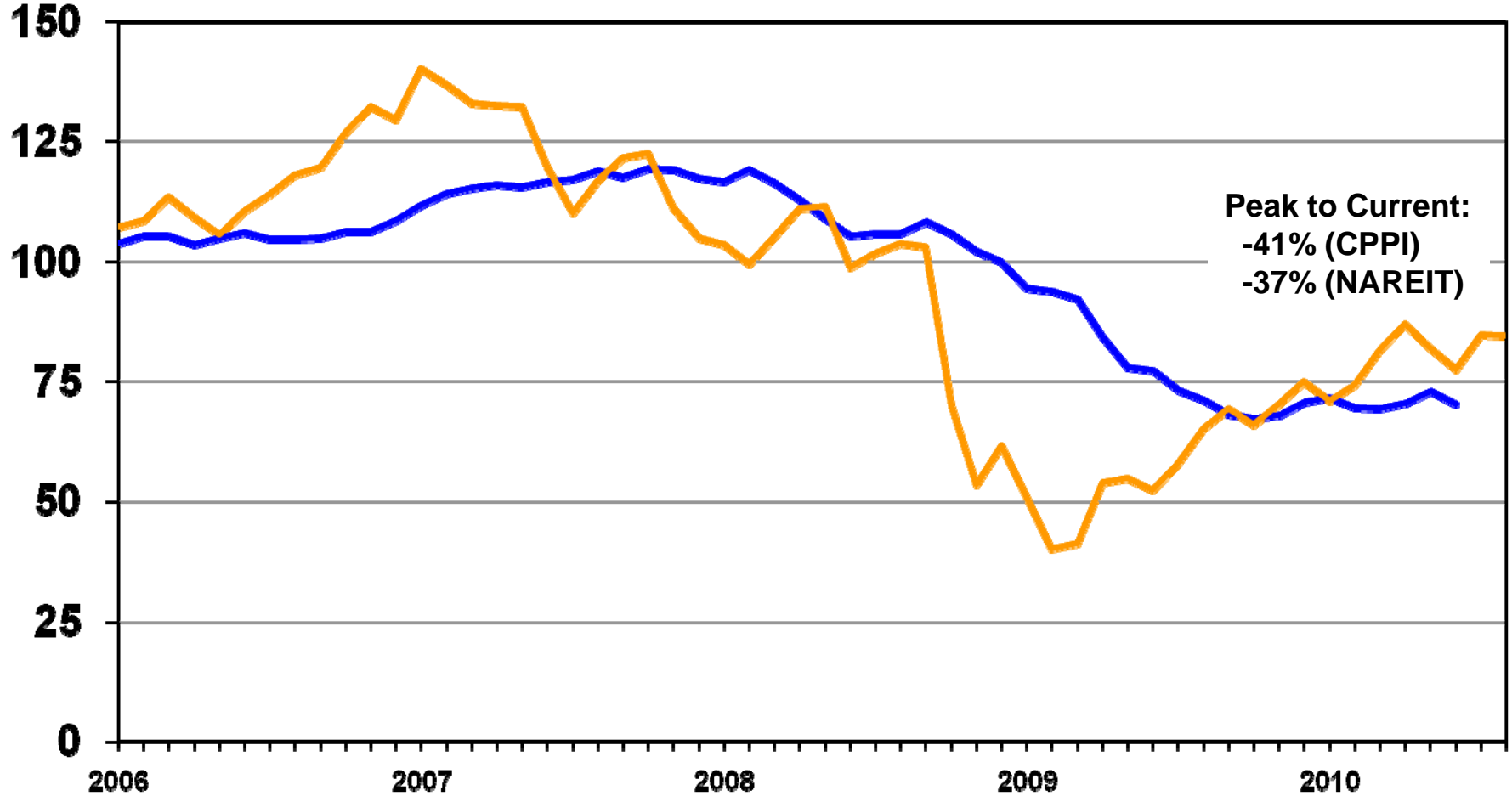
- Over the course of the year, a number of large loans paid off, but the special servicer fees on the loan led to small losses on the loans.
- Stripping out these loans shows both a jump in the average loss severity and a more consistent monthly observation.



Property Performance in Outstanding CMBS



Index, 12/2005 = 100



Peak to Current:
 -41% (CPPI)
 -37% (NAREIT)





Major Value Decline – Prospect is a Long Recovery

Period	Decline	Duration	Time to Recover
1929 to 1933	-44%	4 years	8 years
1941 to 1943	-42%	2 years	2 years
1989 to 1993	-32%	4 years	10 years
1999 to 2002	-4%	3 years	2 years
2007 to Present	REITs: -37% Direct: -41%	3 years	????



- Can the property pay the mortgage?
- Measured by “Debt Service Coverage Ratio”

$DSCR = (\text{Net Cash Flow}) / (\text{Mortgage Payments})$

or

$DSCR = (\text{Net Operating Income}) / (\text{Mortgage Payments})$



Securitization DSCR Declined thru the Boom On the Rise with Stricter Lending Standards

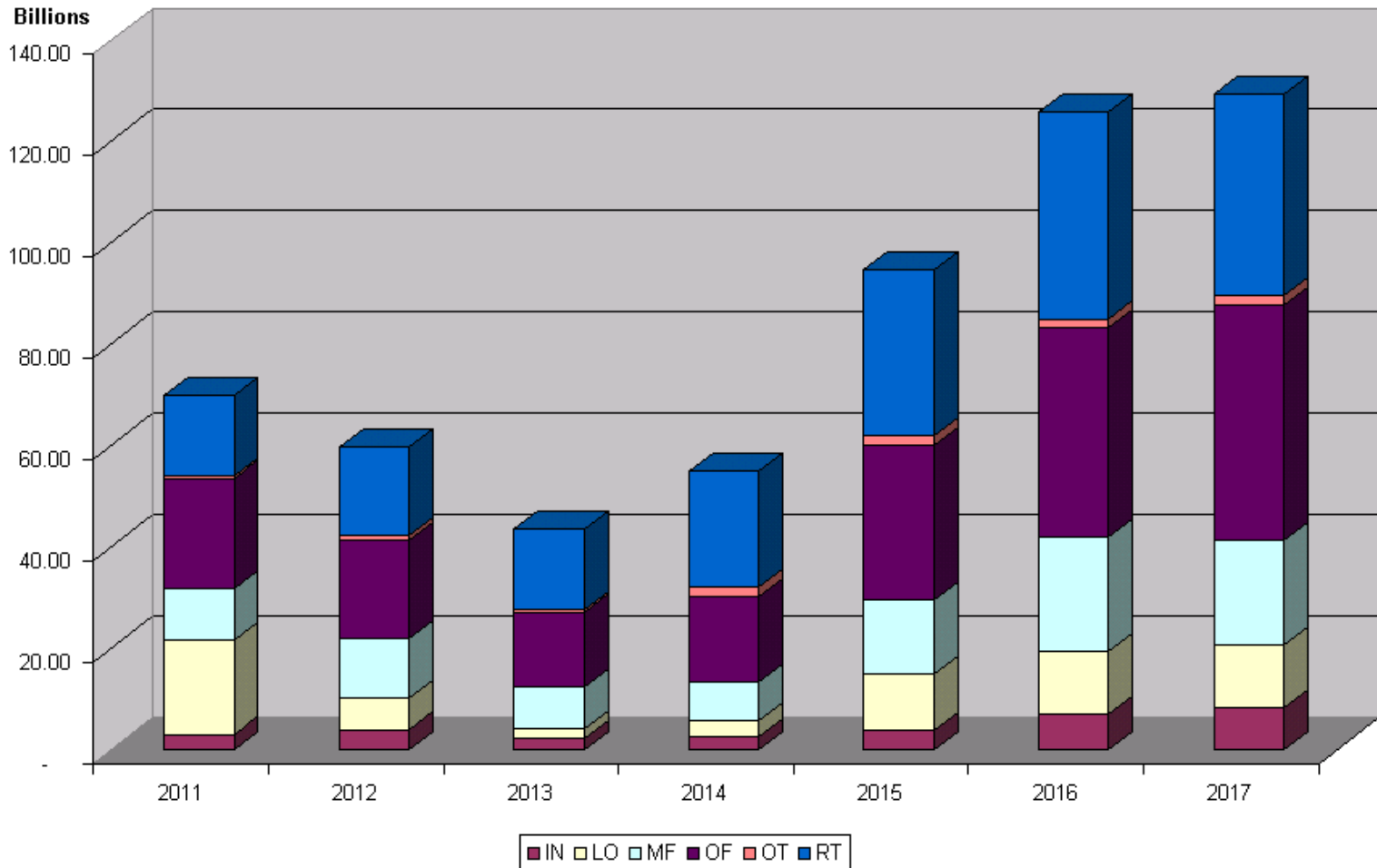
Prop Type / Origination Year	2005	2006	2007	2008	2009	2010
Lodging	2.12x	1.98x	1.71x	1.49x	-	-
Multifamily	1.46x	1.40x	1.30x	1.37x	1.96x	-
Office	1.63x	1.50x	1.42x	1.37x	-	2.12x
Retail	1.62x	1.44x	1.36x	1.30x	2.49x	2.66x



2011 and Into the Future

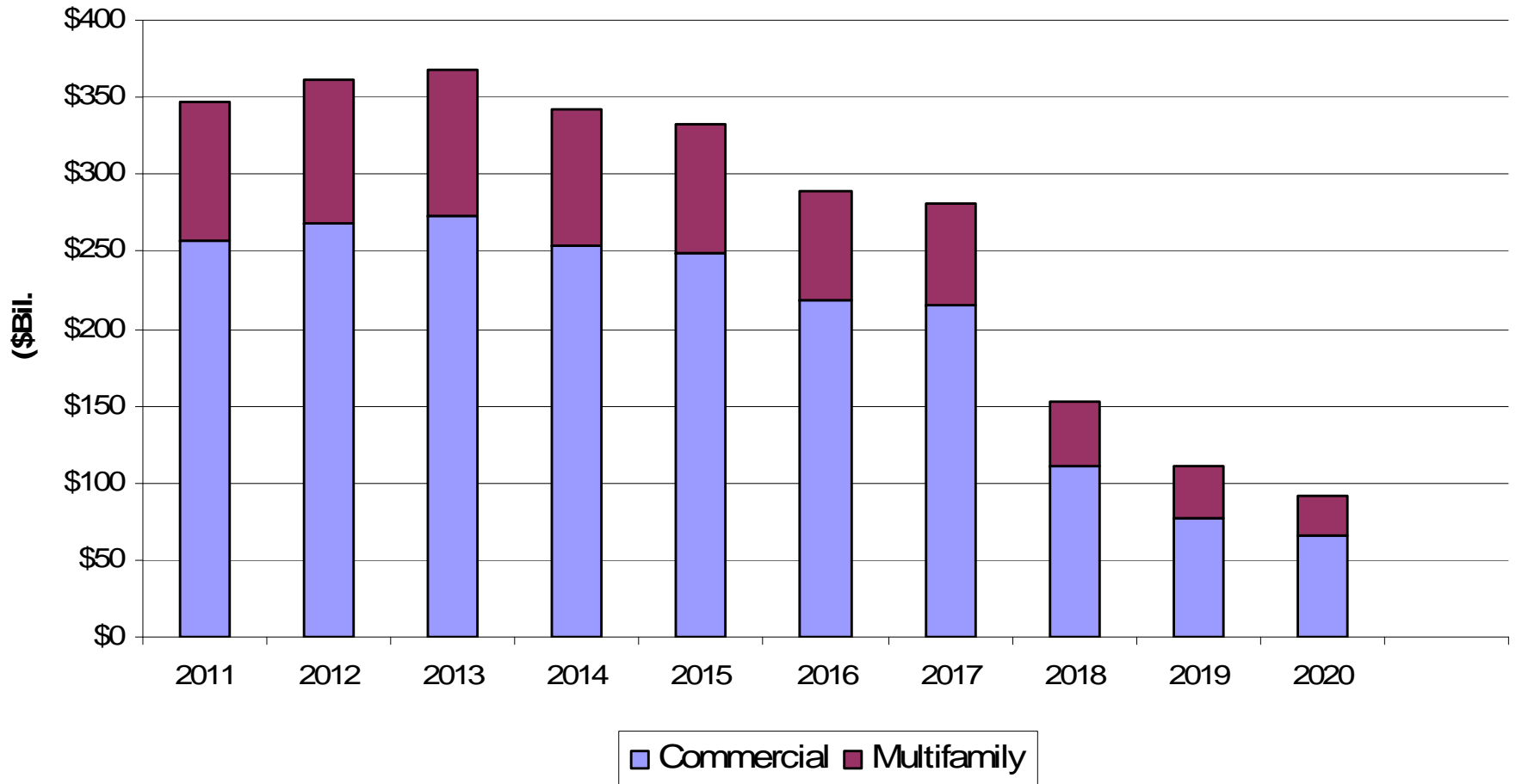


Maturing Loans (Adjusted for Extensions)



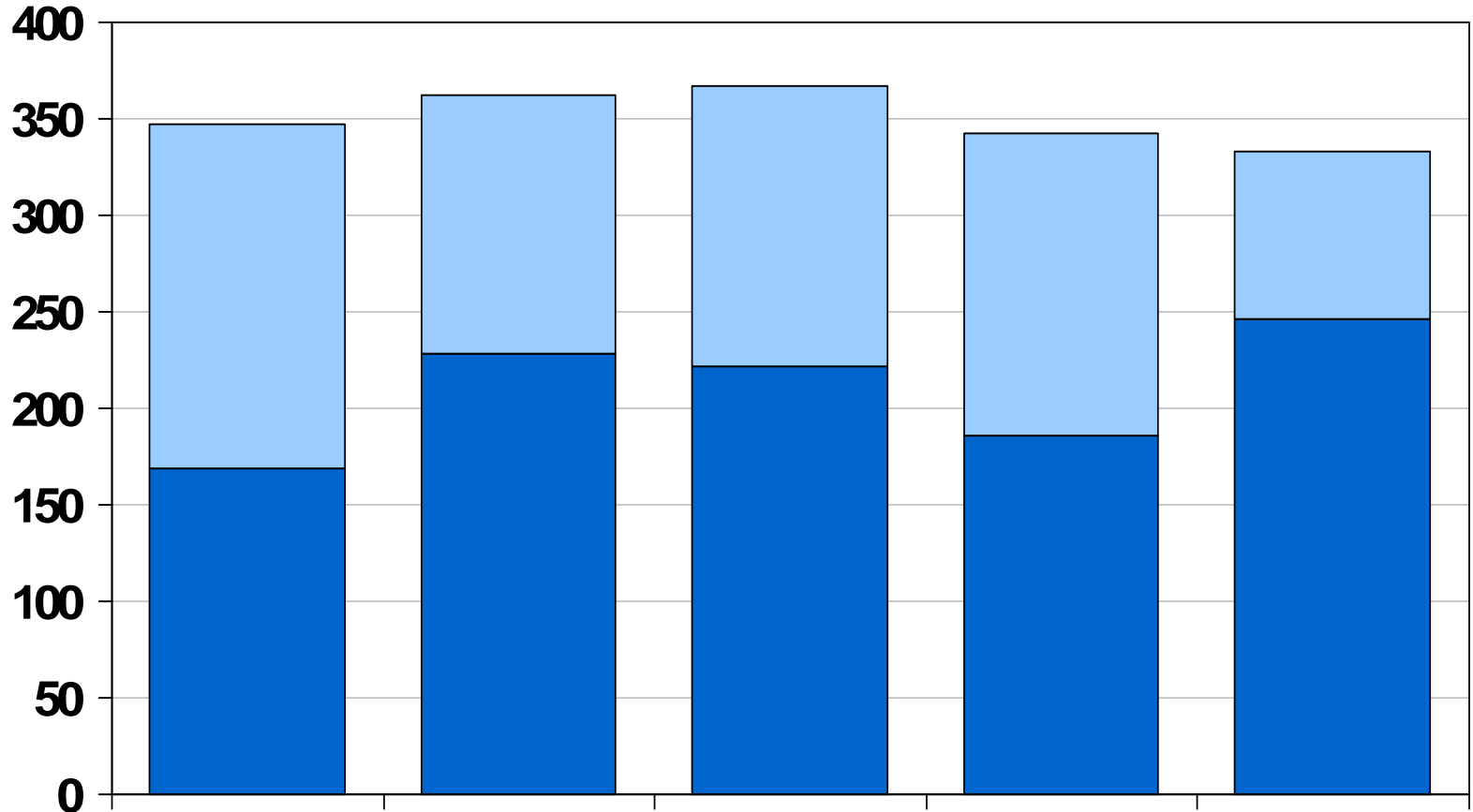


Loan Maturity by Year





\$ Billions



■ LTV > 100%
 ■ LTV < 100%



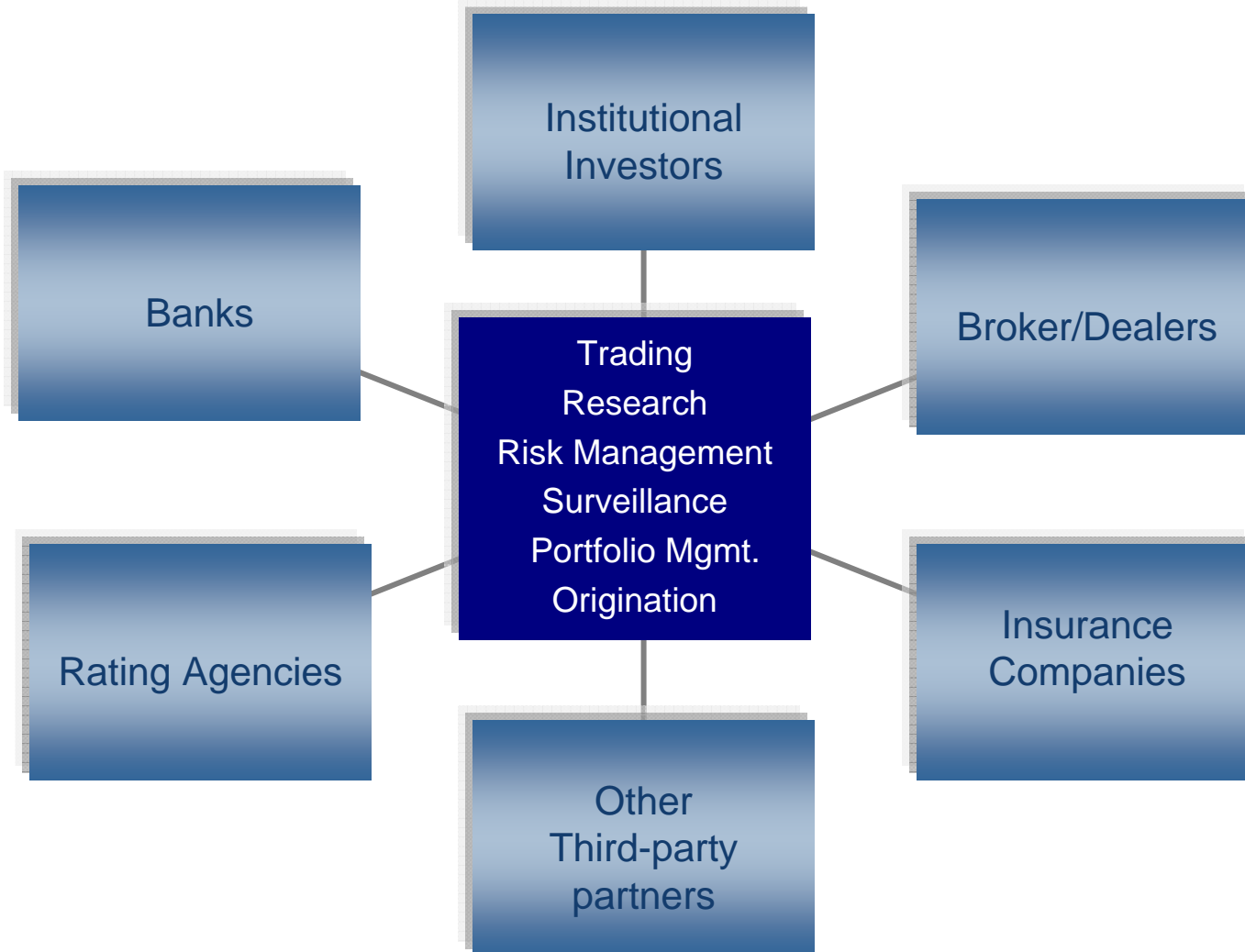
- Dodd Frank
- FDIC Proposals
- SEC Proposals
- New lending platforms
- Covered Bonds



Introduction to Trepp, LLC



- Trepp is the leading provider of analytics, information and technology to the global CMBS and commercial mortgage finance industry
- Foresight Analytics is a division of Trepp
- 30 year history in structured finance with a focus on CMBS the past 15 years
- Headquartered in New York City with offices in San Francisco and London
- Deal coverage includes North American, European, and Asian CMBS as well as Commercial Real Estate backed CDOs
- Largest commercially available database containing detailed information on over 1800 deals and more than 100,000 loans which support close to \$800 billion in securities
- Trepp is a wholly-owned subsidiary of DMG Information, which is a part of the Daily Mail Group, a multi-billion pound media company in Britain.



Over 700 firms worldwide rely on Trepp data and analytics



Trepp for CMBS

- Analytics on the Web
- Analytics on Bloomberg
- TreppWatch
- Morning Update
- Pricing Service

TreppDerivativeTM

- CMBX
- Single Name
- Bespoke Basket

TreppLoanTM

- Research
- Lead Finder
- Portfolio
- Morning Update: Loan Edition
- Trepp-i

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