



Capital Markets Update

The current credit markets, the financial market downturn and it's effect on commercial real estate financing.

Dennis M. Williams

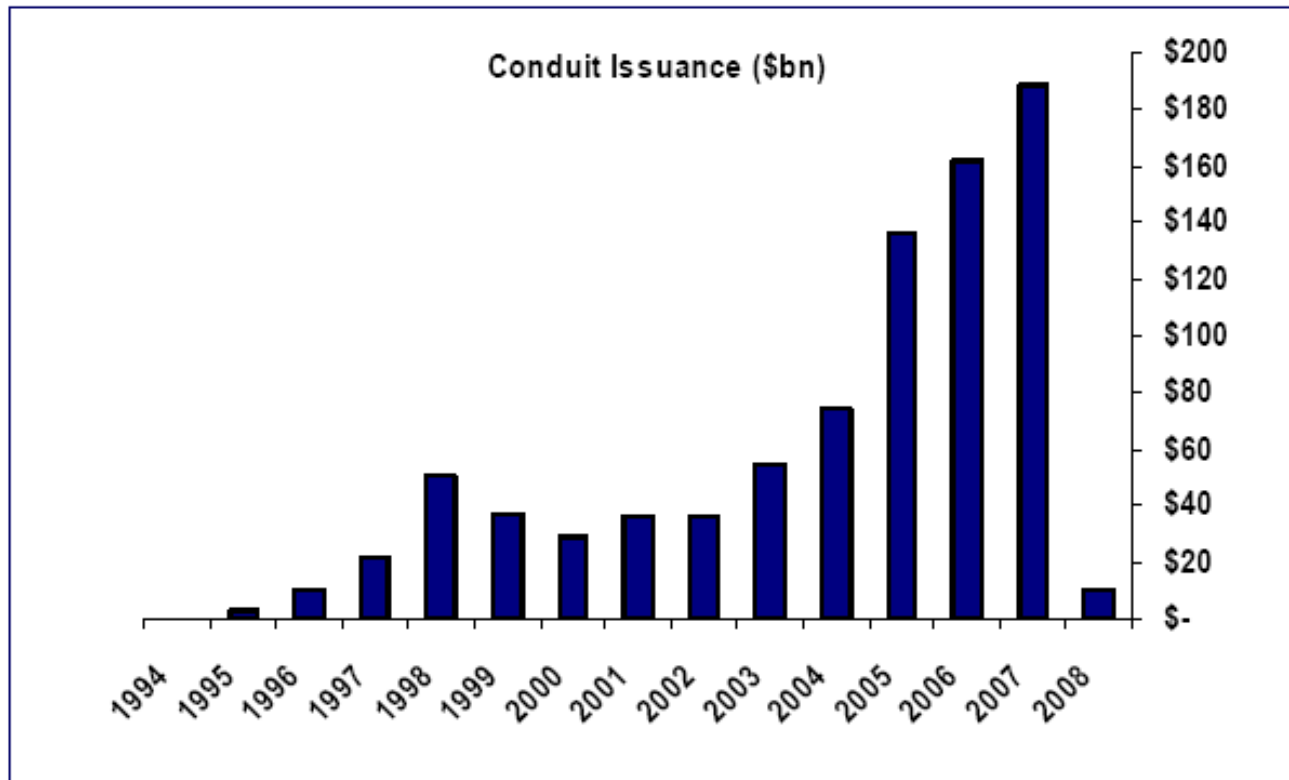
Managing Director

NorthMarq Capital

P: 415-433-1075

dwilliams@northmarq.com

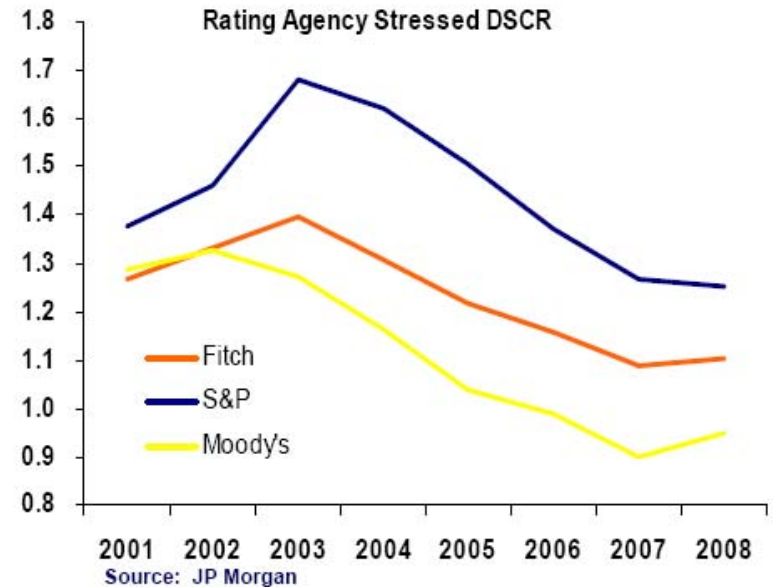
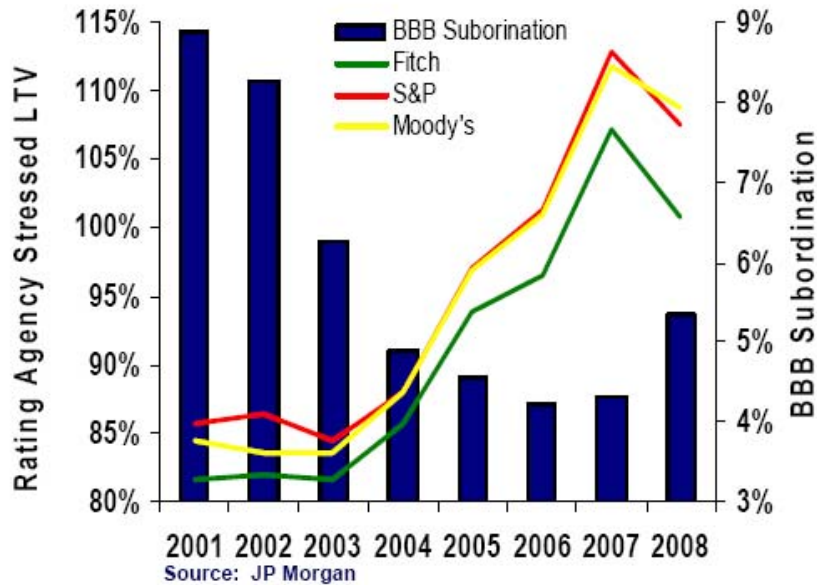
CMBS Conduit Issuance Volume



Source: JP Morgan

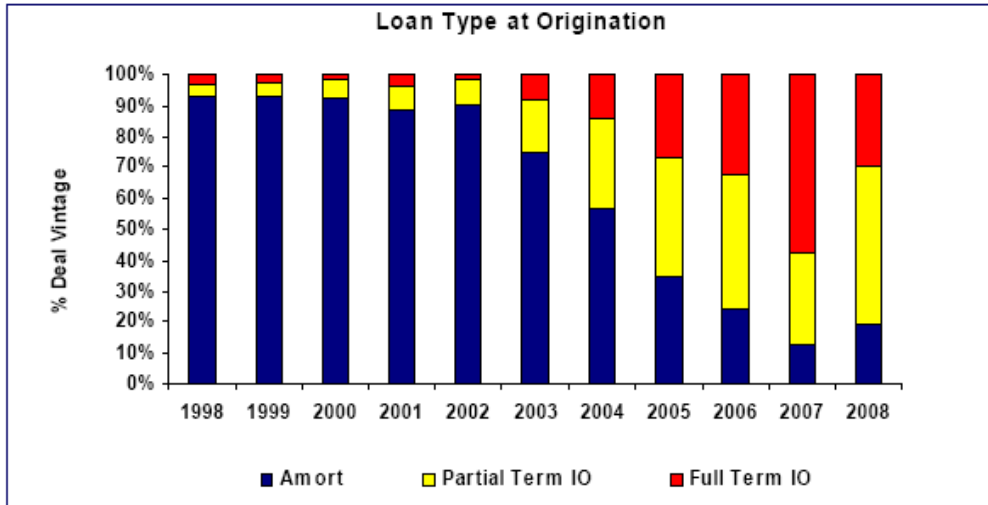
- Volume peaked in 2007 with dramatic decline in 2008
- Conduit origination machine is broken and not expected to resume production any time soon.

How Did We Get Here?

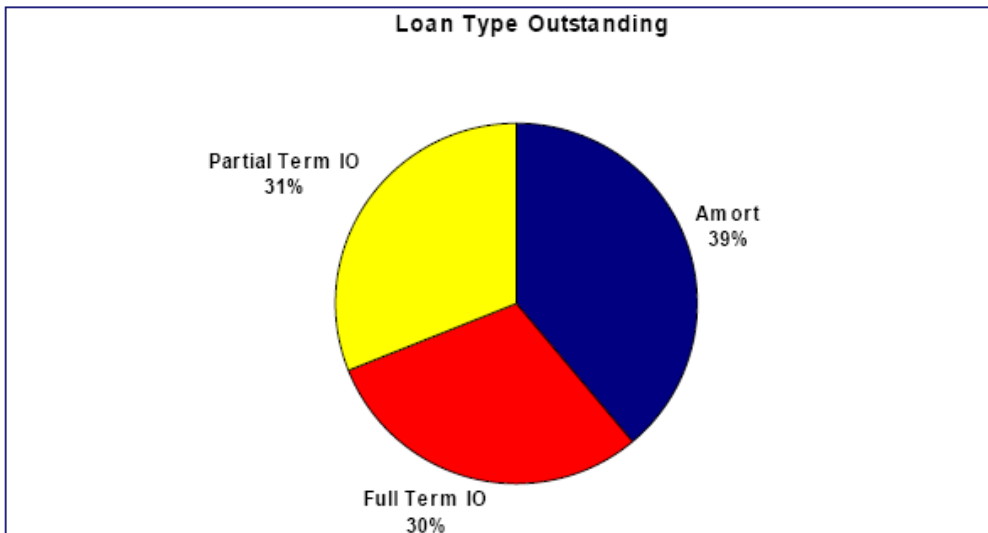


- Increase in LTV's combined with a continued decline in DSCR's and credit enhancement levels
- Slight improvement in 2008 due to investor push back

How Did We Get Here?



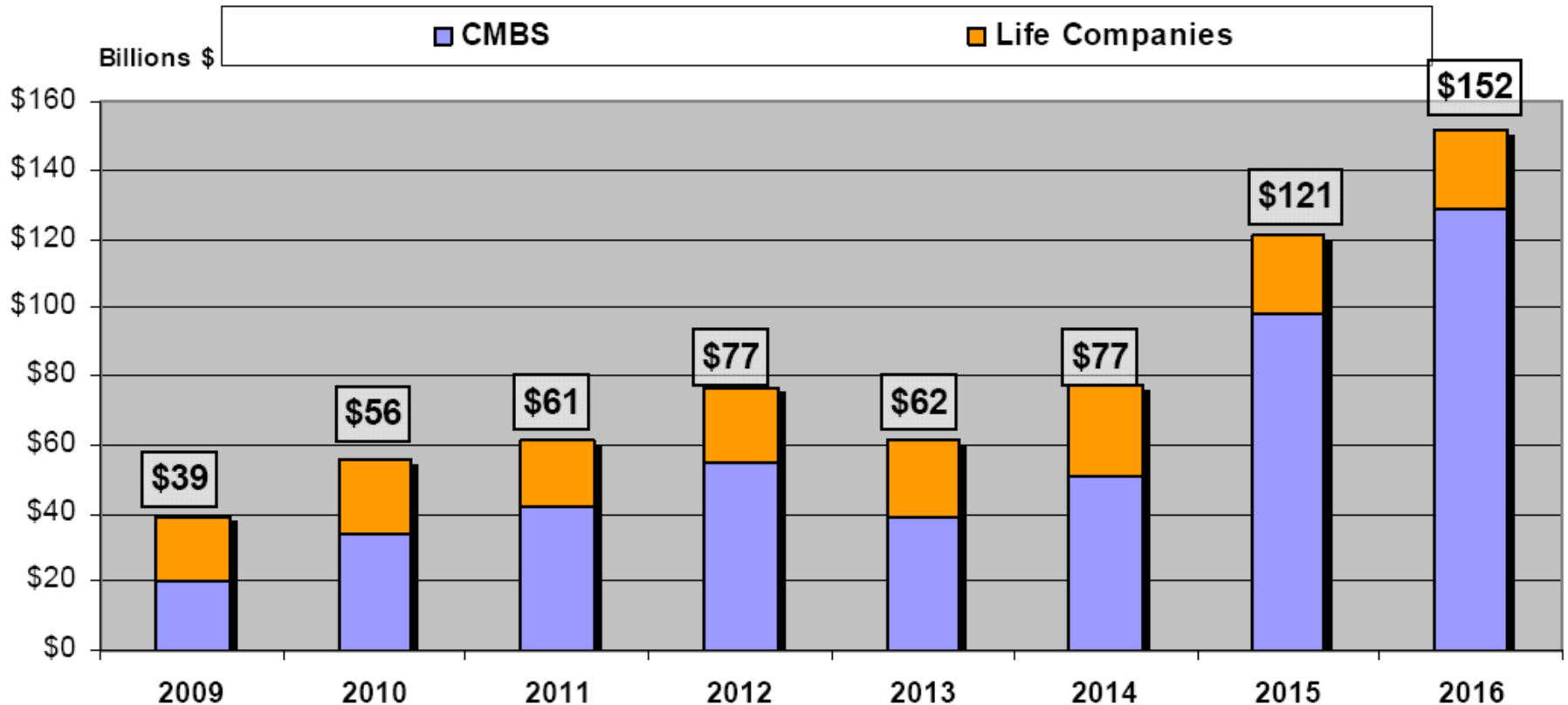
Source: JP Morgan



Source: JP Morgan

- Since 2004 increase in full and partial term IO loans.
- 61% of total loans outstanding have some IO component.
- Term risk is mitigated with lower DSCR payment.
- Balloon default risk high.
- Potential for loss severities to increase.

Refinance Pipeline for Life Companies and CMBS



Source: ACLI, JPM, Federal Reserve, ING IM

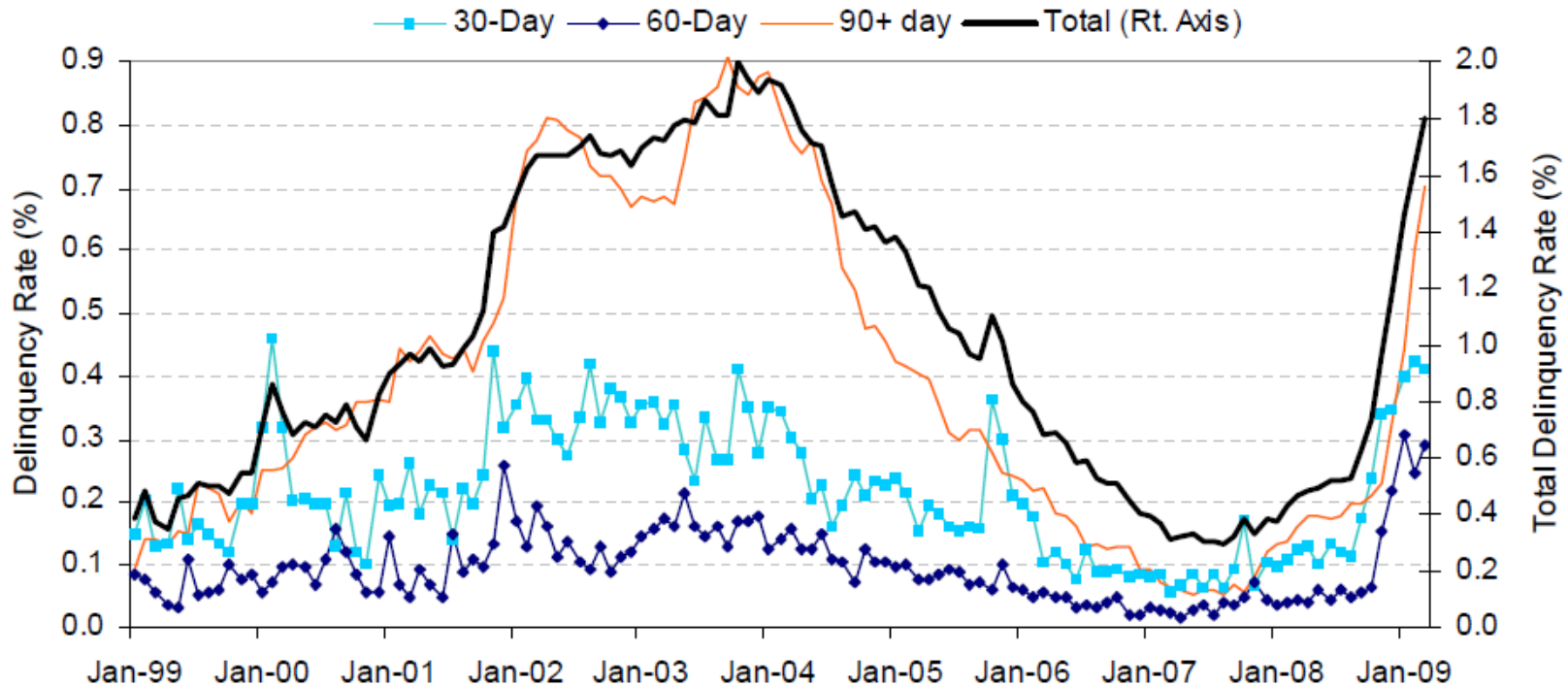
Key Themes as of Q1 2009

- **CRE fundamentals dramatically weaker across most major property segments and markets**
 - Price declines of 35-45%
 - Rent declines and vacancy increases
 - Demand shock induced versus over-supply induced
- **Conduit collateral performance deteriorating at historically fast pace**
 - Total delinquency rate likely to exceed 3.5% by year-end
 - May reach 6% by 2010
- **However, by far the greatest risk facing CMBS is maturity default/extension risk, not term risk default**
 - Large percentage of CMBS loans made in 2005-2008 will not qualify for refinancing

Key Themes

- **Government programs needed to avoid hundreds of billions of dollars of distressed CRE hitting the market and perpetuating a downward spiral in CRE prices**
- **TALF and PIP**
 - Legacy AAA CMBS bonds to be added to TALF - financing details sketchy
 - Expect AAA spreads to tighten and cash synthetic basis to compress
- **How bad it gets in CRE depends on how bad the economy gets**

Aggregate delinquency rate ready to surpass the peak of the previous recession



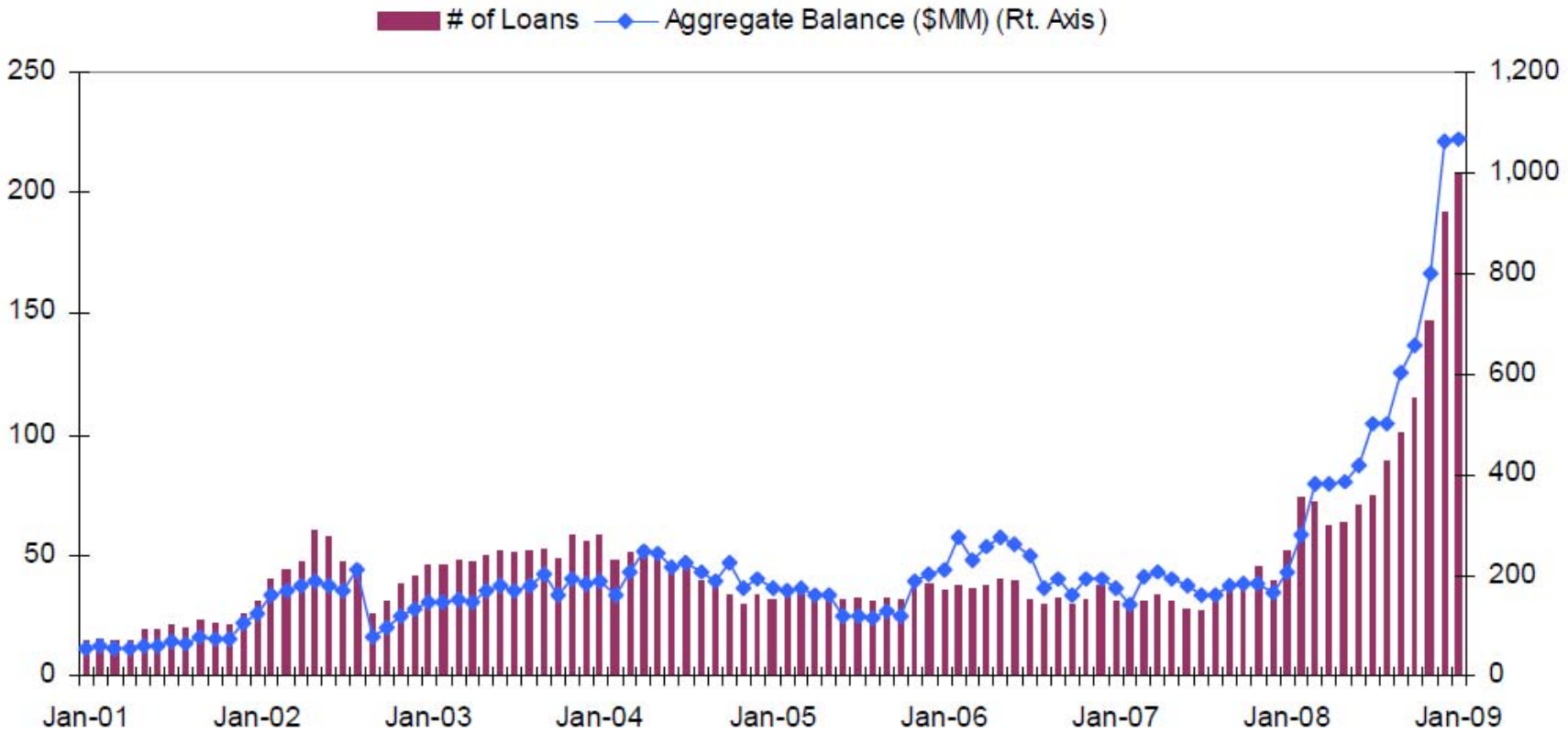
Source: Intex, Trepp

- Deterioration accelerating sharply since September 2008
- 30-day and 60-day delinquency rates up 300-400% in six months

Required ROE for levered CRE investors suggests price declines of 45% or more

	2007 Underwriting	New Underwriting	New Underwriting 15% NOI Decline
Cap Rate (going-in)	4.8%	7.4%	8.6%
Purchase Price (\$MM)	105	68	58
Loan to Value	85%	66%	60%
Equity (\$MM)	16	23	23
Loan Amount (\$MM)	89	45	35
Amortization	IO	30 yr	30 yr
10 year UST	4.69%	2.86%	2.86%
Swap Spread	50	25	25
Credit Spread	45	500	500
All-In Rate	5.64%	8.11%	8.11%
Yr 1 Interest Cost (\$MM)	5.05	3.61	2.82
Yr 1 DSCR	1.00 x	1.25 x	1.36 x
Yr 10 NOI (\$MM)	6.5	6.5	5.5
Cap Rate (exit)	4.8%	7.4%	8.6%
Yr 10 Value	137	89	64
ROE	13.8%	12.8%	13.0%
Implied Price Decline		35%	45%

The number of conduit loans passing their maturity date without refinancing is growing rapidly



Source: Intex, Trepp