



From the Desk of Jay Rollins
jayrollins@jcrcapital.com

JCR Capital Market Update: March 2008

We are all witnessing firsthand the unwinding, unleveraging and dislocation of one of the greatest real estate bulls run in history. Yet, unlike the 1990's, where the bubble burst due to over supply, this one was caused by cheap and easy credit stemming from the securitization market. Below are a few thoughts and observations that may help you plan in 2008.

CMBS will be back: When it does come back, it will look very homogenous and will be based on 10 year fixed rate loans on stabilized properties that will be underwritten at 75%-80% LTV and 125% DSC on trailing-12 month NOI.

Floating rate securitization/CDO's: Floating rate debt on unstabilized properties (including land, condo and special use assets) will not find a new securitization home for a while (years). These transactions will be done by banks and private lenders for the foreseeable future.

Balance sheet lenders: Freddie, Fannie, banks and life companies are having their turn at bat. They do not want to screw it up, thus, they will be selective.

Banks: Regional and local banks will slowly become more conservative, as they have not yet absorbed the pain of all the land, development and construction loans that are still outstanding and running out of interest reserve. (Remember it's only been six months since the correction started.)

Life companies: They will become even more selective. They will focus on low LTV's, newer and better located properties, in major markets.

Transaction volume: Volume has and will continue to slow, as this has become a market for those who "have to" trade: The biggest transaction motivators are lender problems, partner problems and lack of liquidity.

1. **Residential or for sale properties:** These asset classes (including land) continue to be in free fall. Distressed opportunities will be abound, but these will need to have a low basis and will be based on "market recovery bets." The "For Sale" market will get worse before it gets better. Land bridge loans to refinance existing loans that are coming due will be very difficult. Owners should expect to put in more cash into these projects and/or provide the new lender the opportunity to make higher returns.
2. **Commercial (income properties):** There is a lot of talk of commercial distress, but so far, this has not yet materialized. We expect to see more as the year goes on, but it will not be as dire as residential or the 1993 crisis. Deals that will be vulnerable are:
 - High leverage bridge loans coming due in 2008 that were made in late 2004, 2005, 2006, and 2007.
 - These loans typically required significant NOI growth in order to qualify for a refinance.
 - The current low interest rates will help these refinance, but if these deals were leveraged at 85-95%, refinancing in today's market will be difficult. Look for owners to sell in order to pay off debt.
 - **Note: These situations will lead to "white knight" opportunities, which plays to JCR's strength.**

When will the market return to normal and what will that look like? Stay tuned for further updates from JCR Capital. In the meantime, please visit: www.jcrcapital.com